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Politics this week

Mar 28th 2002
From The Economist print edition

Arab summit

Arab leaders met in Beirut to consider a plan to make peace between Israel and the Palestinians. But Yasser Arafat, the Palestinian leader, stayed away because he would not accept Israel's conditions for letting him leave the West Bank. On the summit's eve, it was reported that Egypt's President Hosni Mubarak and Jordan's King Abdullah would not attend either.

See article: America, the Arabs and Iraq

African leaders began a mini-summit in Abuja, the Nigerian capital, to promote a plan to ask rich countries for more aid and freer trade in return for more competent government and less corruption in Africa.

AP

In **Zimbabwe**, the opposition called for a fresh vote after publishing a 200-page report listing some of the ways that the presidential poll of March 9th-11th—"won" by the incumbent, Robert Mugabe—was rigged.

A Nigerian woman won an appeal against her sentence of death by stoning for adultery on the grounds that her conviction was unsound. But Nigeria's problems with **sharia** law, which several mainly-Muslim states have introduced, perhaps unconstitutionally, continue. Another woman received the same sentence for the same offence.

Sunshine to the north

With less than a year left of his presidency, Kim Dae Jung sought to revive **South Korea's** "sunshine policy" by arranging to send a special envoy to meet the North Korean leader, Kim Jong Il. Relations between the Koreas have deteriorated since the United States adopted a tougher stance towards North Korea, which President George Bush claims is part of an "axis of evil".

See article: New signs of a Korean thaw

At least 2,000 people were reported to have been killed after a series of earthquakes destroyed a town and villages in northern **Afghanistan**. At least 30,000 people were made homeless.

See article: Earthquake in Afghanistan

Tribal leaders in **Pakistan's** mountainous areas bordering Afghanistan warned American forces not to pursue al-Qaeda fighters into the region. Local people regarded the United States as an enemy, they said.

After a stormy debate lasting nine hours, the **Indian parliament** passed an anti-terrorism bill that allows detention of suspects for up to 90 days without trial. Opposition parties objected, saying they feared its powers would be misused. Sonia Gandhi, the opposition leader, said the bill posed a larger threat to the freedom of ordinary people than to terrorists.

Bush on tour

In a four-day tour of Latin America, **George Bush** talked to regional leaders about trade and aid, and fighting drugs and terror. But Mr Bush did not announce a date for the start of proposed talks for a free-trade agreement with Central America.

AP

See article: George Bush's Latin American tour

Argentina's central bank imposed controls on foreign-exchange dealing after the peso plunged again. The IMF said it would start formal talks on a loan agreement with President Eduardo Duhalde's increasingly shaky government next month.

See article: Argentina's sagging currency and government

Unwelcome guests

In **Germany**, a government-backed immigration law that would admit skilled workers led to chaos in the Bundesrat, the upper house, and got through only under threat of a challenge in the Constitutional Court.

See article: Germany's immigration

The EU's transport ministers gave the go-ahead for the **Galileo** satellite network, costing over *euro*3 billion ($2.6 billion), a European version of the existing American global-positioning system that everyone can already use free.

Italy denounced France for still not letting trucks of more than 19 tonnes use the **Mont Blanc tunnel**, reopened (at last) this month. A pre-electoral bar to our exports, said the Italians. Just to check on safety, said the French.

Reuters

The left-most of **Italy's** trade-union confederations, the CGIL, held a huge rally in Rome against labour-law changes. When one minister, the highly controversial Umberto Bossi, accused “the left” of last week's murder of a government labour-law adviser, all three union confederations called off a meeting with the prime minister to discuss the changes, and set a date (April 16th) for a long-planned general strike.

See article: Italy's unions resist labour--law changes

In a U-turn, **Britain's** Labour government offered £500m ($714m) to buy off shareholders in the dud Railtrack company, and won mainly jeers. In an equal U-turn, its Conservative rivals decided theirs would be the “caring” party, winning further jeers.

See article: Dodgy British government accounting

Ukraine prepared for a general election on March 31st. Business leaders hoped for a less left-wing parliament that might bring economic reforms.

See article: Ukraine's political road accidents

Greece and Turkey signed a $300m agreement to build a pipeline to carry Iranian and Central Asian natural gas through Turkey to a Greek port, and thus to Western Europe. A plus for international relations, as for the energy business.

In Nanterre, a working-class suburb of **Paris**, a man opened fire with an automatic weapon on local councillors, killing eight people and wounding 30 more.

Airport insecurity

Worries about **airport security** in the United States increased after it emerged that government

investigators had succeeded in smuggling through guns and fake bombs in a series of tests at 32 airports. One in three guns also went undetected. Overall, the screeners did worse than their predecessors in the 1970s and 1980s. Meanwhile Congressman Edward Markey criticised the Nuclear Regulatory Commission for failing to change procedures to prevent potential terrorists from being employed at nuclear plants.

Cardinal Roger Mahony, the head of America's biggest **Catholic** diocese, in Los Angeles, said he would support victims of sexual abuse by priests who broke previously signed confidentiality agreements. He was also open to discussing marriage in the priesthood—something the pope will not countenance.

See article: Sex and the Catholic church

Reuters

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Business this week

Mar 28th 2002
From The Economist print edition

A steely response

The European Union struck back against America's decision to impose **tariffs on steel imports** with tariffs of its own of up to 26% on some steel products. It also drew up a list of American goods on which it would impose sanctions worth $2 billion if America refuses to compensate the EU for its steel measures. America, like Europe before it, threatened action through the World Trade Organisation.

See article: George Bush on trade and aid

The United States said that it would nail a tariff of around 29% on **Canadian softwood**, claiming its neighbour was “dumping” subsidised timber in the American market.

See article: A quarrel with Canada about wood

Joseph Berardino resigned as chief executive of **Andersen**, after only 15 months in the job. The embattled accounting firm is facing criminal charges of obstructing justice, and a stream of defections of clients and staff. Paul Volcker, former chairman of America's Federal Reserve, had previously offered to take the helm. Mr Volcker, brought in to chair an oversight board, has promised to rid the firm of its conflicts of interest between accounting and consulting—so providing a model for the industry—if the charges were dropped.

See article: Andersen's chief resigns

Leaving the jet planes

John Weston was unexpectedly edged out as chief executive of **BAE Systems**, a European defence and aerospace company that, like so many, has suffered tougher times since September 11th. He will be replaced by Michael Turner, the company's chief operating officer.

The Greek government announced a restructuring at **Olympic Airways**, the state-owned national carrier. Reluctantly, it will sell 51% of the loss-making airline, lay off some 22% of the 9,000 workers and cut routes. Doubtless, it would prefer a bail-out but is already under investigation by the European Commission for illegal subsidies.

United Airlines, the world's largest, cancelled orders for executive jets worth several billion dollars in the wake of its decision to jettison Avolar, a money-losing company that arranges part-ownership of jets. United blamed the sluggish global economy.

PepsiCo won a decisive aerial victory over rivals Coca-Cola. United Airlines will serve passengers Pepsi rather than Coke on all services for the next five years. Coke still dominates on the ground.

Post mortem

Despite an expensive rebranding, business has failed to pick up for **Consignia** (once Britain's Post Office). The state-owned former monopoly announced that up to 15,000 jobs would go over the next three years, the first stage of a restructuring that may see as many as 40,000 staff depart—20% of the total. The majority of jobs will go at the parcel division, the most exposed to outside competition.

The break-up of Enron's assets continued with the purchase of Britain's **Wessex Water** by **YTL**, a Malaysian construction company, for £545m ($778m). YTL beat off competition from a consortium of British banks.

Cocking a Snook

Hans Snook, new-age disciple and former boss of Orange, a successful European mobile-phone operator, was appointed as chairman of Carphone Warehouse, Europe's biggest mobile–phone seller. Mr Snook may require more than a little *feng shui* for success: Europe's mobile market seems near saturation. The company said that it would restructure its European shops to attract higher-value custom.

Sonera, a former-state telecoms monopoly, still 53% owned by Finland's government, agreed an all-share deal worth some *euro*7.5 billion ($6.6 billion) to be taken over by **Telia**, 70% owned by Sweden's government. Telia claims the combined company will be better able to resist foreign takeovers and more easily fight off increasing competition in home markets.

See article: I-mode comes to Europe

Marconi's shares were driven below 7 pence (10 cents) as worries mounted that the beleaguered British telecoms-equipment maker faced bankruptcy. The company once again failed to secure a refinancing deal and investors communicated their lack of faith in plans for yet another restructuring.

AOL Time Warner will write-off goodwill to the tune of a walloping $54 billion in the first quarter. New accounting rules require regular reassessment of goodwill and subsequent adjustment to balance sheets. Other companies that paid big sums for acquisitions in the Internet bubble will also face huge write-offs.

Brimming with confidence

Consumer confidence in America zipped higher in March to its highest level since before September 11th, according to the Conference Board. **Germany's** closely watched IFO index of business confidence climbed to an 11-month high in March. Upbeat expectations for Europe's biggest economy led to an improvement for the fifth month in succession.

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International house prices

The houses that saved the world

Mar 28th 2002
From The Economist print edition

Our new house-price survey shows that dearer homes have held the world economy aloft

IT IS somewhere to live; but a home is also, for many folk, a valuable asset. No wonder people love talking about house prices over the dinner table. In this economic recovery, however, homes have done much more than shelter people from wind and rain. They have helped to shelter the whole world economy from deep recession. The global economy now seems to be on the mend. In the first half of this year, America looks likely to grow by an annualised 4%. In Europe, too, surveys of consumer and business confidence confirm that an upturn is under way. Even in Japan, there are signs that the economy has hit bottom. The deeper downturn that many, including this newspaper, predicted after the bursting of America's economic and financial bubble and the attacks on September 11th has thankfully been avoided.

Why has the American economy held up better than expected? In part because productivity growth has been much stronger than in previous downturns. However, a more important reason has been the resilience of the consumer. Last year America's corporate sector suffered its deepest recession since the 1930s, with a massive plunge in profits and capital spending. Yet, despite rising unemployment and lower share prices, consumers continued to spend. How come? One explanation lies in the surge in house prices, where the Fed's interest-rate cuts have certainly worked their magic.

Many economists were worried last year that the wealth loss from falling share prices would force consumers to cut their spending. Even after the recent recovery, American stocks are still worth 25% less than two years ago. Yet, as falling share prices made some households feel poorer, rising house prices have made many more feel richer. Over the past year average house prices in America have risen by 9%, their fastest-ever in real terms. Although American households as a whole have more of their wealth in equities than in housing, a relatively few rich people hold the bulk of the shares. For most people, housing is by far their largest form of wealth. Two-thirds of Americans own their homes, and gains in the value of those assets have encouraged them to keep spending.

Recent studies show that in most countries changes in house prices have a bigger impact on consumer spending than do equity prices. Yet, despite their importance in the economic cycle, it is much harder to track the ups and downs of house prices across different countries than it is for stockmarkets. To help fill that gap, *The Economist* has collected data on house-price movements across 13 developed economies and will monitor these in future on a regular basis (see article).

Our indices show that it is not only America that has been enjoying a house-price boom. In countries from Britain and Australia to France and Spain house prices have been rising at their fastest pace in real terms since the late 1980s boom. One reason, perhaps, why the German economy slumped more severely than others last year may have been its depressed housing market. Germany is the only country apart from Japan where house prices fell in real terms last year.

The boom in house prices stands in sharp contrast to previous economic downturns, when house prices typically stagnated or fell. Unlike in previous post-war cycles, this downturn was not caused by a spurt in inflation which forced central banks to raise interest rates sharply, thereby killing off a housing boom. Instead, America entered this recession with low inflation. The downturn was caused by the bursting of the high-tech bubble which had pushed share prices and investment to unsustainable levels. However, because inflation was low and falling, the Fed and other central banks were free to slash interest rates

sharply to cushion demand.

Massive monetary easing by central banks has succeeded in propping up consumer spending around the world, partly by boosting house prices. To put it crudely: as one bubble burst, another started to inflate. Those capital gains have in turn been converted into cash as households have taken out bigger mortgages. In both America and Britain home-equity withdrawal (the increase in borrowing in excess of new investment in housing) has been running at record levels.

When will the music stop?

Most of the rebound in America's economy in the first half of this year will come from companies' rebuilding of their inventories. If robust growth is to be sustained, capital investment and consumer spending will need to take over. Although investment seems to have bottomed, a sharp rebound looks unlikely given weak profits, a heavy corporate-debt burden and ample excess capacity (see article). Once again, it is all up to the consumer.

House prices cannot continue rising at their current pace. A sudden reversal in prices would harm the recovery, but the news on that is good: a sudden reversal is unlikely unless interest rates were to rise sharply. With little evidence of increasing inflationary pressures, rates are likely to be raised slowly. If so, prices are more likely to flatten off rather than collapse. But to maintain the current pace of growth in spending, consumers will need to pile up ever bigger debts. If mortgages remain cheap in relation to income, consumers will be tempted to maintain their borrowing. But homebuyers may be underestimating the true cost of doing so. Interest rates are low only because inflation is low; real interest costs remain quite high. Initial mortgage payments are lower, but borrowers can no longer rely on inflation to erode future payments. This burden of debt could therefore squeeze future consumer spending. That need not tip America back into recession, but it does suggest a weaker recovery over the next couple of years than many expect. Mortgage refinancing has allowed consumers to maintain their spending despite rising unemployment. But such spending has literally been borrowed from the future.

The lesson which consumers—and also many over-sanguine economists—have to learn is that spending cannot outpace income for ever. House prices have saved America and the world from a deep downturn, but they do not remove the need for consumers to take care over their balance sheets. Homes are only as sound as their foundations.

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Sex and the Catholic church

Wolves in the flock

Mar 28th 2002
From The Economist print edition

Time for the Catholic church both to come clean and to think again about celibacy

AP

Get article background

THE Roman Catholic church, which sees itself as the rock of Peter, is almost as hard to budge. It deals in eternal verities, not the petty excitements and obsessions of the secular world. The pope's reaction to the sexual scandal now besetting the church was to say that some priests had fallen foul of *mysterium iniquitatis*, the pervasive evil that stalks the world. Enough of theological jargon. The church needs, first, to face this scandal squarely and, second, to take action.

In the United States, the heart of the present revelations, at least 55 priests in 17 dioceses have been suspended, put on leave or forced to leave for abusing “children”—usually, in fact, teenage boys. The American church has had to agree to pay out millions of dollars to the victims of one such priest; hundreds more lawsuits are expected. In Ireland, the church has agreed to pay *euro*125m ($110m) to children who were sexually abused by priests over decades. In Poland, an archbishop is under investigation for abusing seminarians.

Proportionately, the numbers are still small. But it takes very few rotten priests to damage the church, both financially and, much more important, morally. The church depends on its priests. Though lay ministry is increasingly important, only priests can perform the central act of the faith, the consecration by which, Catholics believe, bread and wine are changed into the body and blood of Christ. If the hands that do this are now revealed to have fondled boys, that faith is shaken.

Of course, erring priests are not new. For centuries, some (including bishops, cardinals and even popes) have been found to be keeping mistresses or pursuing seminarians. The difference now is not just that sex is news, and that child abuse ends up in court. It is that, in an age where religion no longer commands automatic respect or adherence, the secular authorities are not prepared to put priests on a pedestal apart. They are required to answer for their offences, like anyone else: and quite rightly.

The other vital difference is that priests have become scarce. Since vocations are in free fall in almost all parts of the world, dodgy candidates are not turned down and those who offend are not dismissed. Instead, superiors look away or even cover up for them. In the diocese of Boston, one priest was simply moved from parish to parish after each new offence.

A simple change

Human nature being what it is, sexual adventuring among the clergy will never be rooted out entirely. But one change, simply done, could make a difference. At present, priests are required to be celibate; they may not marry, and married men may not be priests. The result of this, over the years, is a priesthood that is now heavily homosexual (though this is still not admitted), in which priests appear to believe that they are celibate merely because they have not married. This hypocrisy must end. If celibacy were made optional for parish priests, the secretive priestly caste would be broken open. The priesthood would also become more attractive, less lonely and more attuned to the problems of parishioners. Not least, there would be more priests, as the church so desperately needs.

Celibacy is not laid down in doctrine. It is merely a rule, hallowed over centuries. It has already been breached in the case of converted Anglican and eastern-rite Catholic priests. It could be changed tomorrow. Those who care for the future of the church should pray, and campaign, that it will be.

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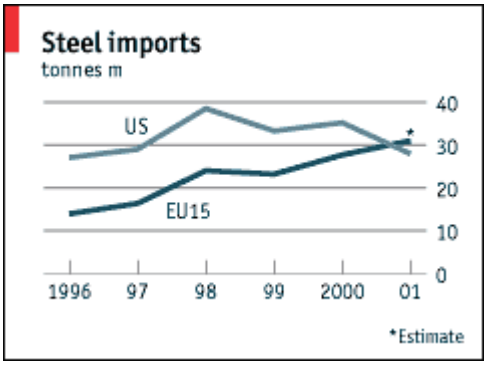
Aid and trade

What the president giveth...

Mar 28th 2002
From The Economist print edition

The world's poor will gain from George Bush's new aid policy, but not from his new trade war



BARELY a month ago, the United States was something of a pariah in any discussion about foreign aid. The world's richest country was proportionately one of the least generous, giving only $10 billion a year in development assistance—not even half the European Union's total. The Bush administration seemed reluctant to link the “hard” war against terror with the “soft” campaign to help alleviate poverty. And it was downright grumpy about the idea that aid might actually work.

It is therefore greatly to George Bush's credit that, in a matter of days, he has relaunched America as a donor country. He took to last week's United Nations conference on development at Monterrey not only a promise to increase American aid by $5 billion a year but also a profound change in attitude. Aid, he has now (correctly) concluded, is indeed a good thing, so long as it is given to countries that are well governed. (So remarkable was this change of heart that it has even spread to Jesse Helms: the outgoing senator, famous for complaining about aid disappearing down “foreign ratholes”, now wants to spend millions fighting AIDS in the poor world.)

European leaders have reason to be a little sniffy about Mr Bush's public-relations coup. Why didn't unshaven rock stars consort with them when they pledged to give an even bigger dollop of extra money? Much of Mr Bush's cash will not start flowing until 2006, halfway through what he hopes will be his second term. And it remains to be seen how the American government judges the good governance of those on the receiving end. As for Mr Bush's “revolutionary” idea of tying aid to effectiveness (as opposed to just using it to tip any third-world regime clever enough to buy American tanks or back its foreign policy), that is merely a case of America catching up in the development world, rather than forging ahead.

But these qualifications should not spoil the central fact of Monterrey: the United States, which only a few years ago could barely bring itself to scrape up a mere $435m of debt relief for the most wretchedly indebted parts of the world, is now prepared to pull its weight. How sad, then, to report a second conclusion from Monterrey: that the Bush administration's increasingly dangerous trade policy risks cancelling out much of the potential good that its aid will do. After all, what is the point of helping a poor African country to set up export businesses, if you do not allow its products into your country?

Tequila and textiles

Let it be said quickly that, when it comes to putting up barriers against exports from poor countries, the Europeans are at least as culpable as the Americans. Mr Bush's failure is partly one of expectations. As a candidate, he gave ringing support to free trade as a way of alleviating poverty. Last year, he also helped to launch the new round of world trade talks at Doha, which promises to focus on agriculture and textiles, the two areas that together account for 70% of the poorest world's exports.

Yet, on trade, Mr Bush has little good news for the world's poor. He has not got Trade Promotion Authority, the special negotiating power he needs for trade deals, through Congress. The Andean Trade Preference Act, which exempts some Latin American products from tariffs, has also expired. The two houses of Congress are currently engaged in trying to pass a gargantuan farm bill: in a world where the West spends $1 billion a day protecting its farmers against exports from the poor world, Mr Bush should

veto it, but he won't. He has even let down the Pakistanis, his allies in the war against al-Qaeda, by refusing to allow in more of their textile products.

Worst of all, Mr Bush has just started a trade war by announcing tariffs on steel. The poorest countries are mostly too poor to be in the steel business. But other American industries such as textiles (see article) and citrus-fruit farming are also demanding protection, their cause helped by Mr Bush's decision to protect America from the scourge of cheap Canadian wood. And the poor world will also be clobbered as other countries retaliate by putting up their own barriers. This week the European Union foolishly announced protective steel tariffs of its own; and it has also threatened to levy retaliatory duties on a number of American products. As this cycle increases, many of those hardest hit will be the farmers and small manufacturers of the poorest world—in short, just the sort of people who might one day make aid unnecessary.

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The Arab summit

The Iraqi connection

Mar 28th 2002
From The Economist print edition

No peace in the Middle East without disarming Iraq

AS THEY gathered in Beirut this week, Arab leaders had one main issue on their mind: the bloodiest fighting in a generation between Israelis and Palestinians. Yet there are two explosive issues on the region's agenda. Even if diplomats manage to wrest the initiative in the Middle East from the soldiers and suicide bombers, the shock of the September 11th terrorist attacks has made America more determined than ever to strip Iraq of its ill-gotten weapons of mass destruction before these can threaten America's own security or that of its allies.

Getting Israelis and Palestinians to talk, not shoot or bomb, is worth every bit of the ongoing American and Arab effort, and more. Yet none of the issues at the core of this dispute—the fate of Israeli settlements and Palestinian refugees, the future of Jerusalem—can be resolved in a manner or a time-frame that avoids the need for hard decisions over Iraq. Nor would leaving Iraq to cheat on regardless of its treaty obligations and its past promises to the UN Security Council advance the cause of peace and stability in the Middle East. Indeed, if there is ever to be the regional peace the Saudis and their supporters envisage, both sources of instability have to be dealt with.

Saddam Hussein is no ordinary tyrant: he has already used chemical weapons against his own people and his neighbours, attacked Iran and invaded Kuwait, fired off missiles at Israel and Saudi Arabia, and for a decade frustrated UN-led efforts to hold him to the promise he gave in return for the ceasefire that ended the Gulf war: to hand over all his nuclear, chemical and biological weapons, and then accept a monitoring regime to ensure he built no more. America has signalled clearly that it will eventually complete the inspectors' job, by force if necessary. But there may be a way to avoid force.

Worth a second try

Governments inside and outside the region, fearful of the fallout from a critically weakened Iraq, or anxious to avoid inflicting new hardships on its much-oppressed people, are pinning hopes on a resurrection of UN weapons inspections to stave off American military action. Is it worth giving Saddam another chance to disarm peacefully? And if so, what might a credible inspection regime look like?

The answer to the second question is already set out in UN decisions: inspectors of the UN's choosing must have the right to go anywhere, at any time, until they are satisfied that Iraq has given up all its banned weapons. The aim is the nuclear, chemical and biological disarmament of Iraq, not an inspection regime for its own sake. The job will not be easy: three years ago, before inspectors were blocked, they had turned up the important bits of Iraq's nuclear weapons programme, destroyed most (not all) of its missiles, disposed of thousands of tonnes of chemical weapons and their ingredients, and they were closing in on its production of nerve agents and its best-kept biological secrets. Since then Saddam has had time to rebuild much and conceal more.

Last time, the inspectors' task was undermined by splits in the Security Council. With Russia and France anxious to get back to oil-business-as-usual, Iraq tested the council's resolve to destruction. Those sceptical of giving Saddam a second chance are right to expect his officials to try the same again: drag out the discussions at the UN and, assuming they let inspectors back at all, harass them at every turn.

But there are reasons to hope things might play out differently this time. One is that America has given credible warning that its patience is exhaustible: the alternative to disarmament by inspection is

disarmament by force. To avoid that outcome, the diplomacy-firsters will have to lean a lot harder on Iraq. Another is that Russia, underminer-in-chief of the previous inspections, is now less likely to want its improved ties with America to be held hostage by Iraq (especially, it hints, if its commercial interests are somehow taken care of).

But even if the inspection rules were right, and Iraq was held strictly to them, would America be satisfied short of the “regime change” it says Iraqis deserve? Until credible inspections are tried, no one will know. Since its threat of force has revived enthusiasm for real inspections, America is unlikely to drop it until the inspectors have done their job. But a Saddam monitorably stripped of his weapons of mass destruction would be a much deflated threat to the rest of the world. An Iraq that has been given another chance to disarm but spurned it, however, will have made the case more eloquently than others can that Iraq will not be parted from its illicit weapons while that man remains in charge.

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About sponsorship

Railtrack and British public finance

Enron-on-Thames

Mar 28th 2002
From The Economist print edition

Private-sector accountants are not the only ones who indulge in dodgy practices

PA

WHEN Railtrack, the company that once ran Britain's railway network, was put into administration last October, the government's position appeared harsh but consistent. Railtrack was a quoted company, in which shareholders invested at their own risk. There would be no bail-out, insisted Stephen Byers, the transport secretary.

Now the government has executed the most embarrassing U-turn of Labour's five years in power. There will after all be a bail-out. Taxpayers will end up paying Railtrack's disgruntled shareholders £300m ($425m) directly. They will also be liable for a further £200m through a government-supported loan from bankers which will be used to pay shareholders. Together with residual assets outside administration this should allow a settlement of £2.50 a share, only a little less than the £2.80 price before the administration order.

As it happens, the shareholders had some reason to be disgruntled. The way in which Mr Byers put Railtrack into administration was questionable. If the company had believed insolvency was imminent, it would have had to disclose such price-sensitive information to the markets. But the Financial Services Authority recently cleared it of failing to do so. Shareholders and the company had been preparing to take the government to court on the ground that Mr Byers did not act properly when he dropped his bombshell.

So the taxpayer is picking up the bill for Mr Byers's incompetence. That leaves the government with the worst of both worlds. The City is now much more suspicious of the government and is demanding more stringent conditions in the private-finance initiative (PFI) contracts under which private money finances public works such as the rebuilding of London's underground. Those contracts are supposed to shift risk from the public sector to the private sector. But the message from Railtrack's bail-out is that there is no genuine risk transfer when the government deals with the private sector.

The building of a new high-speed line between the Channel Tunnel and London offers another example in the rail industry of a failure to protect the taxpayer's interest. In 1998, this project was in danger of collapsing because revenues from Eurostar in Britain, which formed part of the contract, were much lower than had originally been forecast. The government stepped in to rescue the rail link by guaranteeing further debt issued by London & Continental Railways, the company that had won the contract. According to a report issued last week by the House of Commons' Public Accounts Committee, the taxpayer will have to pay at least £350m and maybe as much as £1.2 billion to keep the company afloat.

Another potential cost to the taxpayer looms if the £16 billion PFI deal to modernise London's underground runs into financial difficulties. The deal is supposed to protect the taxpayer from potential liabilities, but Mr Byers has had to issue “comfort letters”—a diluted form of guarantee—to the financial backers of the infrastructure companies set up to do the work, so that they can raise the money. The more comfort the transport secretary gives the bankers, the more the likely discomfort of the taxpayer.

When failure is not an option

The underlying problem with all these projects is that they are as important as they are expensive. PFI

deals are supposed to transfer risk from the public to the private sector. But with so much at stake politically, the government cannot afford to let them fail. One way or another, the railways have to work and the underground has to run. This makes it impossible genuinely to transfer risk from the public to the private sector, which undermines the purpose of PFI.

If risk cannot genuinely be transferred, then the Treasury should own up to the actual cost of the borrowing that the private sector is undertaking on its behalf. But that is not happening. This week, Network Rail, the new company that will run the railways, announced that it would be raising £9 billion from the private sector to finance its operations. That money will in effect be guaranteed by the government, but like London & Continental's guaranteed bonds it will not appear on the government's books. Yet the taxpayer may well have to fork out if things go wrong again.

Keeping risky investments off the books is the sort of thing that Enron did to its shareholders. It is not the sort of thing that governments should do to taxpayers.

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Letters

Mar 28th 2002
From The Economist print edition

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Constitutional issues

SIR – You say of Alabama's constitution that if it "contains racist language, so does the US constitution, which defines blacks as three-fifths of a person for the purpose of census-taking" ("Old Alabama won't leave politely", March 16th). In fact, the clause in the original constitution of the United States bears not directly on the census but on apportionment of the House of Representatives (and of certain taxes); it requires that these be proportionate among the states to the number of all free people (except "Indians not taxed"), plus "three-fifths of all other persons". In other words, for apportionment purposes, free blacks counted as one person and slaves as three-fifths of a person. Or maybe it should be thought of as minus three-fifths, since it was their oppressors who got the votes—it is hard to make the case that counting slaves equally (as the slaveholders wanted) would actually have counted as a step toward racial justice.

The real racism of the constitution was its acceptance of slavery, for the time being so the founders thought, in order to make union possible. Alabama's constitution, explicitly designed to undo in so far as possible the effects of the abolition of slavery, is something else again.

Andre Mayer
Cambridge, Massachusetts

Banned in Thailand

SIR – Your survey of Thailand (March 2nd) has pricked an issue which even modern Thais find taboo: making public comments about the royal family. Thai reverence for the royal family far exceeds the respect given today to the British or even the Japanese monarchy by their subjects.

As a result you unintentionally gave the Thai government—led by an overly confident prime minister who despises criticism and a free press—legal grounds for banning this issue of *The Economist* in Thailand.

Conveniently, the ban also censors many valid criticisms of the government. In future, I suggest that you sacrifice the whole picture for 90% completeness, so giving the current political leaders in Thailand less of an excuse to ban future issues.

Wisely Anonymous
Bangkok

SIR – You paint a picture of Thaksin Shinawatra, Thailand's prime minister, as a businessman-turned-politician who employs unconventional means to get what he wants. What should be kept in mind is that Mr Thaksin accepts absolutely no criticism. It is his policy to spend money, and now he can spend money from the public purse. Those that do not play to his tune are sacked if they are public servants or harassed like the local press. Anyone critical of him is regarded as an enemy of the state. After several years living in South-East Asia, he looks to me like a mixture of Mahathir Mohamad of Malaysia, Ferdinand Marcos of the Philippines and Suharto of Indonesia. All attempted to build an empire using the framework of a formerly democratic government.

Sam Munich
Bangkok

Power in Quebec

SIR – You say that much of Quebec's electricity supply is exported to America ("Power of the Cree", February 23rd). This is misleading. While 95% of Quebec's energy exports are to the United States, this represents less than 2% of our annual generated electricity.

Rita Dionne-Marsolais
Minister for energy for Quebec
Quebec City

Frank admission

SIR – The definitive word on the long-term prospects for Frank Lloyd Wright's buildings was spoken some years ago ("Frank Lloyd Wrong?", March 16th). In response to a gentleman who complained that the roof of his Wright-designed home leaked constantly, a friend observed: "That's what you get for leaving a work of art out in the rain."

Barry Edelson
Baldwin, New York

Rockler replies

SIR – In your obituary (March 23rd) of my father, Walter Rockler, you ask what he would have said regarding America's self-declared war on worldwide terrorists. We discussed this very issue several weeks ago, so I can answer the question with some precision. As a general rule, my father opposed the application of indiscriminate military power on weak and defenceless innocents. He characterised the recent invasion of Afghanistan by the United States as being another case of inappropriately applied force.

While he was certainly no admirer of Osama bin Laden and his band of lunatic followers, he saw no justification for the cluster bombing of Afghan civilians. It was no more justifiable to bomb those unfortunates in Afghanistan than it would have been to bomb the state of Texas for unwittingly having harboured David Koresh and his followers in Waco.

Nicolas Rockler
Belmont, Massachusetts

Nothing like the sun

SIR – Your articles on possible advances in nuclear fusion ("Here we go again", March 9th) and the Bush administration's protectionist tariffs on steel imports ("George Bush, protectionist") fail to make a connection between the two: human effort to tame nuclear fusion is protectionism on a planetary scale, with potential consequences on an equal scale.

We will never achieve nuclear fusion as reliably, safely, efficiently, cleanly or cheaply as the sun. So why pour billions of dollars into trying to develop fusion on earth? The money would be much more usefully spent on developing infrastructure and improving the technology for the collection and storage of solar energy, both directly and indirectly through biomass and wind. Hydrogen-power technologies complement solar power because hydrogen gas, derived from solar-powered electrolysis, is a highly effective way of storing and concentrating energy from the sun.

Eugenio de Hostos
San Francisco

Well spotted

SIR – In your article on plagiarism you use the headline, "Plagiarise. Let no one else's work evade your eyes" (March 16th). Ironically, this is a direct quote from a song titled "Lobachevsky" by Tom Lehrer. You do not attribute the quote to Mr Lehrer. This illustrates how difficult it is completely to avoid using the work of other people.

Carl Olson
Sarasota, Florida

Cold comfort

SIR – As someone who has travelled to Spain, Singapore and Japan, I can assure your correspondent, Rahul Banerjee (Letters, March 16th), that not everywhere in the northern hemisphere is quite as cold as Winnipeg.

Neil Boyle
London

SIR – It would seem that, including Mr Banerjee, you have at least two subscribers in Winnipeg. I find this most refreshing. It is one thing to be cold; quite another to be alone.

Geoff McInnes
Winnipeg

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About sponsorship

Hong Kong and Shanghai

Rivals more than ever

Mar 28th 2002 | HONG KONG AND SHANGHAI
From The Economist print edition

Corbis

Which city, Hong Kong (above) or Shanghai, will prosper most in the new century?

COASTAL China's pre-eminent city, Hong Kong, has a great disadvantage. It is more than 1,500km (940 miles) from the capital, Beijing, and its leaders do not belong to the Communist Party's ruling elite. This remoteness from China's political pulse leads to a nagging, nervous question: will Shanghai, 1,200km away and much nearer to Beijing, recover its pre-communist status as China's greatest city, and once again outshine Hong Kong as a business and financial centre? Worse, isn't that what China's leaders, especially President Jiang Zemin and his powerful “Shanghai clique”, secretly want?

As Hong Kong's economy struggles to recover from the battering it suffered in the Asian financial slump of 1997 and the recent global slowdown, the mood is glum. While the former British colony still teeters on the brink of recession, the Chinese mainland's economy grew by 7.3% last year, and Shanghai's by more than 10%. If average growth rates over the past decade continue, Shanghai's GDP will match Hong Kong's in 15 years. In 20 years, its GDP per person will catch up too. China's growth figures are of course exaggerated, and double-digit growth will be very hard for Shanghai to sustain. But that is not much comfort to Hong Kong.

As the biggest outside investors in Shanghai, Hong Kong's business community knows Shanghai's swagger well. Since the early 1990s, the city has built an expansive financial district of towering skyscrapers, with its own international airport, on land that a decade ago was farmland and factories. Pudong, as the area is known, is about to see what Shanghai planners hope will be the world's tallest building. Plans are under way to build a 30km bridge over the sea to a huge, largely artificial, island on which a deep-water container terminal will be built. The world's first commercial magnetically-levitated train service is already under construction in Pudong. It is supposed to be ready for service next year.

Fuelling this growth is a surge of foreign investment. Now that China has joined the World Trade Organisation (WTO), Shanghai is the obvious focus for companies hoping to benefit from the opening of China's markets. Hong Kong, of course, will benefit from that too. But many in the territory worry that Hong Kong's once-unique role as an intermediary in China trade will fast be eroded by Shanghai.

Hong Kong's lack of dynamic, forward-looking leadership does not help. At the end of February, the highly unpopular chief executive, Tung Chee-hwa, was handed another five-year term. This was not because he had done a great job, but because China's leaders wanted him to stay in office. An electoral college packed with Hong Kong business leaders and politicians fearful of opposing China's wishes therefore re-elected him *nem con*. Replacing Mr Tung would have been tantamount to admitting that he had failed, and no Chinese leader could admit that. This is unfortunate, because maintaining Hong Kong's pre-eminence will require vision and

political courage to stand up to vested business interests.

The Taiwan wrinkle

China is not deliberately trying to hold Hong Kong back. Shanghai's recently deposed mayor, Xu Kuangdi, was fond of saying that Hong Kong and Shanghai are “two strikers on the same team”. Chinese leaders would find it hard to suggest otherwise. A Hong Kong relegated to the second division would do little to convince the world, and especially Taiwan, that China's “one country, two systems” formula for reunifying the country has much to commend it. But Hong Kong cannot lean on this political crutch indefinitely.

At present, Hong Kong is the entrepot for much of Taiwan's China trade, and Shanghai's growth as a shipping hub is largely to meet the needs of the Yangtze River delta. But once direct links are established between Taiwan and the mainland, this will change. Shanghai, not Hong Kong, may become Taiwan's first port of call. Already some 300,000 Taiwanese live in and around Shanghai, and Taiwan's bookshops are full of books about how to settle and do business there. Increasingly it will be that city's performance, not Hong Kong's, that determines Taiwan's view of the mainland and its ideas of what its own political future may be.

This change will hurt not only Hong Kong, but the whole Pearl River delta where much of Taiwan's $60 billion investment in China is based. Already, in the past year or two, Shanghai and its hinterland have become the hot new favourite for Taiwan investors, even though Taiwan's current ban on direct trade and transport with the mainland makes getting to Shanghai a time-consuming chore.

Already, in the past year or two, Shanghai and its hinterland have become the hot new favourite for Taiwan investors

Hong Kong officials play down the potential impact of direct cross-strait links between China and Taiwan. They argue that this will boost the economies of both parties and therefore increase the size of the cake for all, including Hong Kong, to share. But there is a danger that Taiwan's investment in high-tech industries will make the Yangtze River delta, with its cheaper land and workforce, the hub of China's IT economy, with Beijing providing much of the R&D. This could leave less room for Hong Kong and its ambitious plans to turn itself into a regional centre of IT development. Hong Kong's Cyberport project, a science park for high-tech ventures due to be completed next year, may find itself in the wrong part of China.

The trials of separateness

Despite his unpopularity, Mr Tung should not be made a scapegoat for all this. The Asian financial slump and the bursting of the IT bubble in 2000 have battered the territory. Property prices have plummeted to less than half their worth at the time of Hong Kong's transfer from Britain to China in 1997. Unemployment has risen to 6.8%, its highest level since the 1980s. Last year the stockmarket plunged 22%. Mr Tung could have done little to prevent this.

The property-market slump is the natural flip-side of soaring property prices in the 1990s caused by tightly restricted land sales. For that, blame China, which insisted that the colonial Hong Kong authorities keep government land sales to a minimum in the run-up to the territory's handover. China feared the squandering of a valuable government asset. It ended up creating a bubble market, which has now burst.

Hong Kong is also fundamentally weakened by its physical separation from mainland China. Although most of Hong Kong's manufacturing sector has relocated in the past 20 years to its hinterland, the Pearl River delta, it is cordoned off from it by one of the world's most closely guarded borders. Many Chinese complain that it is more difficult now for a mainland Chinese to get a job in the territory than a non-Chinese expatriate. This is because both the Hong Kong and mainland governments want to prevent the territory from being deluged with mainlanders eager to settle.

Both the Hong Kong and mainland governments want to prevent the territory from being deluged with mainlanders eager to settle

The trip from central Hong Kong to the Chinese border city of Shenzhen, only 20 miles away, can take longer than 1½ hours, with as much as half of that time spent at immigration and customs. (This may improve next year, when the territory introduces “smart” identity cards that can be checked by machine.) The two border crossings for non-commercial traffic are closed from midnight to 6.30am. “We have a very strong fortress mentality,” complains Shiu Sin-por, director of a Hong Kong think-tank with links to the Chinese government. “Shanghai doesn't have this problem of relating to its hinterland. They don't have this wrestling with political reservations. They are moving ahead with leaps and bounds.”

Hong Kong's immigration restrictions make it difficult for the territory to attract an educated elite from mainland China. Such people are needed, however, if the territory is to become, as it hopes, a fund-raising and R&D centre for China's high-tech industries. The government is loosening restrictions for some mainland workers, but Shanghai will long remain a far easier place for well-qualified job-seekers in China to launch their careers. Shanghai also has the advantage of being culturally more familiar to mainland Chinese.

The government is working towards 24-hour border-crossing arrangements, but these may not come for as long as five years. Hong Kongers worry that a more open border will make it easier for the territory's young people to get cheap (and often impure) mainland drugs. It might also encourage the practice, already common among Hong Kong's men, of having mistresses on the other side. More than anything, however, people worry about the effect easier crossings might have on Hong Kong property prices. If Shenzhen were to become an attractive place from which to commute into Hong Kong, property prices in the territory could fall yet further.

The courage to integrate

Such worries are overblown. For one thing, property prices in Hong Kong are not too low. If anything, they are still too high—higher than in Singapore and much higher than in Shanghai. For another, Hong Kong's increasing population will ensure sustained demand for residential property, and many cities elsewhere in the world boast property prices much higher than those of their hinterlands.

To stay competitive, the territory needs to let property prices find a more natural equilibrium with those of the mainland. That will take political courage on the part of Mr Tung. Since the government draws 30% of its revenue from land sales, shifting from that source of money would oblige it to look hard elsewhere. Raising taxes would be the obvious answer, and Hong Kong may have to give up the luxury of exempting nearly half of the population from income tax. But in his budget speech this month Hong Kong's financial secretary, Antony Leung, avoided committing himself to tax reform.

Hong Kong at least knows it has to change and integrate itself further with the economy of the Pearl River delta. A big psychological barrier was removed in January last year when the territory's chief secretary, Anson Chan, resigned, citing the less-than-convincing reason that she wanted to spend more time with her family. (The real reason: she did not get on with Mr Tung.) Mrs Chan was an ardent promoter of the idea that, as she put it, “our strength lies in the separation which is fundamental to the success of ‘one country, two systems'.”

Hong Kong at least knows it has to change and integrate itself further with the economy of the Pearl River delta

Mrs Chan's successor, Donald Tsang, says that since taking up his job he has tried to develop much closer ties, and as quickly as possible, between the city and the Pearl River delta. Hong Kong officials now say they want to establish a “strategic relationship” with other cities there. “Member cities should not think of themselves in isolation. In the old days we did stop our planning at the boundary,” says Kitty Choi, who heads an office responsible for cross-border co-ordination set up by Mr Tsang. The old mindset, at least, is beginning to change.

Cross-border co-operation is crucial, because Hong Kong does not have to look as far as Shanghai to find competition. Shenzhen's ports are developing fast and are far cheaper to use (though less efficient) than Hong Kong's. Shenzhen talks of complementing Hong Kong's facilities, but cooperation is patchy. The volume of cargo handled by Shenzhen ports now amounts to about a quarter of that passing through Hong Kong. Five years ago, it was only 4%. Hong Kong officials admit this is a challenge, even as they proceed with massive port-expansion plans.

The shadows over Shanghai

But for all Hong Kong's floundering, Shanghai is by no means certain to emerge the clear favourite for companies in search of a regional or China headquarters—even in ten or 20 years' time. Shanghai's great disadvantage is the mirror-image of Hong Kong's: it is an integral part of China, but steeped in its political traditions and way of life. Its property markets are ill-regulated and chaotic. It lacks the sound financial structure that keeps Hong Kong afloat. Its legal system is arbitrary. A senior western diplomat in Shanghai laments that some foreigners “are seduced by the skyline, and tend to switch off important bits of their brain when making business decisions.”

The unexpected departure of Mayor Xu Kuangdai last December was a sobering reminder of the city's murky politics. Mr Xu was ousted peremptorily and in secret, presumably at the instigation of the city's shadowy Communist Party secretary, Huang Ju, who is the real power in Shanghai and who did not get on with him. “That explains the difference between Hong Kong and Shanghai—the system and the freedom of speech and all that,” says a senior Hong Kong official, reacting to the news. “Don't be dazzled by the light.”

“Freedom of speech and all that” does indeed remain Hong Kong's strong suit. Under the mini-constitution, or Basic Law, by which Hong Kong has been administered since 1997, the territory has its own legal system (based on Britain's) that provides far better protection and a fairer environment for business than that of mainland China. In general, despite some wobbly moments, Hong Kong's courts have remained impressively independent.

Even if Shanghai were to fulfil its ambitions, Hong Kong would not necessarily suffer as a result. China's external trade will produce enough business for several ports. And until China's currency, the yuan, becomes fully convertible, which may take as long as one or two decades, China will need Hong Kong to tap international finance.

Hong Kong is beginning to take the right steps. On January 1st, it lifted restrictions on the number of mainland tourists allowed to visit the territory. Though fear of a tidal wave of illegal immigrants is still pervasive, this decision could help to break down mental barriers. It is certainly good news for Hong Kong's suffering retail and leisure sectors. More dubious are Hong Kong's plans to attract mainland tourists with a Disney theme park. This is due to open in 2005, despite the failure of many theme parks in China.

After much urging from businessmen, Hong Kong also favours the establishment of a free-trade area embracing itself, the nearby former Portuguese territory of Macao and the mainland. This might give Hong Kong companies (which are currently given the same treatment as foreign businesses) a head-start in the rush to exploit the markets being opened up by China's entry into the WTO, especially in services. China has responded to the idea with polite curiosity, but may not bite.

Hong Kong's quality of life—boosted by good education and health services, while China's public services crumble—will help to ensure that it remains China's first entrepot for several years to come. But the pace of change in Shanghai, and the excitement the city generates among foreign investors, could quickly narrow the gap. If Hong Kong is to remain superior to both Shanghai and Shenzhen, it will have to reinforce both its strengths: its legal independence, and its economic interdependence.

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About sponsorship

The branding of Hong Kong

A dragon with core values

Mar 28th 2002 | HONG KONG
From The Economist print edition

Stick that in your lapel

ON HANDOVER day in 1997, Donald Tsang, then Hong Kong's finance secretary, pinned a little emblem on to his lapel. It was a double flag—Communist China's joined to Hong Kong's *bauhinia* flower—that stood for “one country, two systems”. For more than three years Mr Tsang was rarely seen without it, and it became, along with his bow ties, his trademark.

Last year—by when he was chief secretary—Mr Tsang replaced the emblem with a little dragon, the fruit of three years of research by international brand consultants. Besides cosmopolitanism, says Kerry McGlynn, the government public-relations director behind the project, the dragon projects five “core values”. These are three adjectives—“progressive”, “free” and “stable”—and two nouns, “opportunity” and “quality”.

The visual link, according to the government, is self-evident: Hong Kong stands for “East meets West”. So the dragon is composed of two parts that could, if you twist it, stand for the letters H and K, as well as the Chinese characters *Heung* and *Gong*. Combined into a dragon, an ancient Chinese metaphor for energy, the strokes represent Hong Kong's legendary dynamism.

The dragon appeared on brochures, buses and much else last summer, and within days Hong Kong's people were naming it. Expatriates saw it mostly as a “flying fox”, while Cantonese speakers—usually more creative in such matters—settled on “shocked chicken”. Those appraised of the consultants' fees called it “the HK$9m dragon”.

Perhaps the most perplexing thing about the dragon, however, is that it took Hong Kong so long to get one. Canada branded itself in 1970, and New York (“the Big Apple”) a decade later. Besides, their fetish for brands is one of the few core values that most Hong Kong residents agree on. As one long-term resident puts it, “When the going gets tough, Hong Kong goes shopping.”

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Free trade

Tangled up in textiles

Mar 28th 2002 | GASTONIA, NORTH CAROLINA
From The Economist print edition

Corbis

Does the Bush administration favour free trade? Not in the Carolinas

GEORGE BUSH spent much of last weekend in Peru and El Salvador, touting the virtues of free trade. The message was rather different at a regional summit to discuss the plight of America's beleagured textile firms in Gaston County, North Carolina. “The textile industry has been offered up on the mantle of free trade,” intoned the governor of South Carolina to loud applause. “Textiles have been nothing but a pawn in US foreign policy,” roared a textile titan. “We need to be king.”

Rhetorically, at least, the Bush administration seems happy to oblige. “Know that you have a friend in us. Know that you can trust us,” Don Evans, Mr Bush's commerce secretary, told textile lobbies last week. Speaking at the Gaston summit, a man from Mr Bush's trade office said nothing about freer trade; instead he acknowledged similarities between global textile markets and steel ones. Small wonder the assembled textiles honchos agreed that Mr Bush's people offered their best hope of help for years.

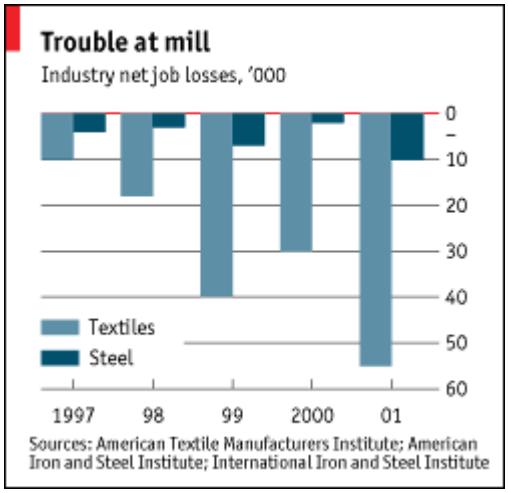
At one level, the contradiction between Mr Bush's words in Latin America and his officials' tone at home is hardly surprising. Commerce secretaries are paid to offer soothing words to American businesspeople. But after Mr Bush's decision to slap tariffs on steel and now lumber (see article), the president's commitment to free trade is already in question. Will textiles expose it as a complete fraud?

No one doubts that the American textile industry, which employs just over 400,000 people, mainly in the south-east, is in deep trouble. A gradual decline over the past two decades has become a headlong rout since the Asian currency slump of 1997. Over 180,000 textile workers have lost their jobs since then—more people than the entire steel industry still employs. The strong dollar and the domestic slowdown have proved a lethal combination. Last year alone, 116 mills closed.

Unemployment in Gaston County, for instance, has doubled to 10%, and the towns are dotted with empty mills. Those factories that survive have replaced workers with machines. In the Gastonia plant of Parkdale Mills, a leading yarn maker, a handful of people now oversee the robots. The factory employs 75 people today; a decade ago it had three times as many.

And it will get worse. Just as the American shoe-making industry has disappeared, so the American textile industry (apart from a

few high-tech producers) will have limited prospects, if freer trade becomes a reality. It survives only because in America, as in most rich countries, textiles are heavily protected. The average American tariff on textile and clothing imports is 17%; the top tariff is much higher. Textiles are the only big manufacturing industry that still follows global quota rules. That quota regime is due to end in January 2005. The question is what happens then.



As well as supporting freer trade in the Americas, the Bush administration was a driving force behind the Doha agenda for global trade talks. There it was agreed that rich countries would cut their remaining tariffs, "in particular on products of export interest to developing countries". Rich countries are supposed to cut their duties (relatively) more than poor countries. Doha also commits America to reviewing international anti-dumping rules. This could be important for textiles, because once the quotas go, the American mills could well follow the steelmen and use anti-dumping rules to stop imports.

Already Mr Bush's people are backtracking. His main textile-trade negotiator is currently mulling the introduction of textile quotas on Vietnam, a country not covered by the global quota system. Mr Bush recently refused to increase quotas or cut tariffs for Pakistani textiles. After frantic lobbying from the Carolinas, all he could offer Pakistan was the possibility of switching quotas to allow an extra $142m-worth of imports this year (less than a tenth what his ally had asked for). And the White House has not objected to demands from Republicans in textile areas for Congress to tighten rules in agreements with Caribbean countries.

Mr Bush's defence is that, individually, each of these actions is fairly small (which is certainly true when compared with slapping tariffs of up to 30% on steel). Also it is claimed that helping the textile industry in the short term is necessary for the broader goal of freer trade. In particular, the administration only managed to get Trade Promotion Authority (TPA) through the House of Representatives by one vote. That vote came from a textile Republican from North Carolina, Robin Hayes, who extricated many of these commitments as the price for his vote. Until TPA has passed the Senate, the Bush administration cannot risk upsetting the textile lobby.

The realpolitik does not end there. The Republicans' slender hold on the House of Representatives is threatened in the November elections, and a few textile Republicans look vulnerable.

Such calculations bode ill for America's willingness to open up its textile industry. The elimination of global quotas, after all, is due in January 2005, just after the next presidential election. Worse, all this muttering about helping the troubled mills masks the fact that the administration is actually dragging its feet over offering more help to displaced textile workers.

The textile industry is one of the biggest beneficiaries of Trade Adjustment Assistance, a federal programme that helps retrain and support workers whose jobs have disappeared as a result of import competition. Around 20% of all adjustment money over the past two decades has gone to textile workers.

As part of the trade-promotion package, Senate Democrats are keen to expand adjustment assistance from the $400m a year it costs today to $1.2 billion. The idea is to include explicitly "secondary workers" (those who lose their jobs because their factory supplies another firm that has gone under) and also expand the adjustment assistance to last longer and include a subsidy for health-care cover.

Both expansions matter hugely to the textile industry. In Gaston County many of the bankruptcies have been yarn makers, machine-tool makers and other suppliers to the textile mills. Longer-term assistance is important too. Four out of ten people in Gaston County do not have a high-school diploma. Retraining such people takes time. Yet rather than expand, and improve, trade adjustment, the Bush administration last week offered a proposal that ignored the issue of secondary workers entirely, and offered nothing on health care. Advocates for trade adjustment dubbed it "a disgrace".

Mr Bush may eventually be forced to accept more adjustment assistance as a price for getting TPA. But in textiles at least, this administration is too keen on petty protectionism and too stingy to pay the price of truly freer trade.

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A quarrel with Canada

You've stumped us

Mar 28th 2002 | SEATTLE
From The Economist print edition

North America's neighbours look woodenly at each other

AP

Lumbering towards a trade war

IT IS called softwood, but these days it is producing nothing but hard feelings. Softwood is used to build houses, stuff that in skilled hands changes from a pile of wood into a recognisable home in mere days. In the United States, about 30% of such softwood comes from Canada. But on March 22nd the Department of Commerce announced that it would slap a tariff of around 29% on Canadian softwood. The Americans contend that Canada is subsidising its timber industry, and dumping wood on to its neighbour for sale at prices that do not cover its production cost.

The Canadians hotly deny this, and the two sides are volleying expertise at each other. “They've hired their experts, and we've hired ours,” says John Allan, president of the British Columbia Lumber Trade Council.

In Canada the provincial governments own forests, and each province is given considerable freedom in pricing its “stumpage”, as standing trees are oddly called. American critics say the Canadians all but give away those uncut trees. John Perez-Garcia, a professor of forestry at the University of Washington in Seattle, estimates that Canadian logging companies pay as much as 60% less for standing trees than they would if the market set the price.

Not so, retort the Canadians. Dan Evans, manager of log exports for British Columbia's government, points out that stumpage fees cover only a small portion of what it costs a Canadian company to send lumber across the border. These companies, he says, have to build their own roads, re-forest logged lands, and pay the cost of planning their sales. “We feel we price our timber competitively.” It is worth noting that for years American companies were themselves accused of receiving subsidies; stumpage prices for trees cut down on federal land were long criticised as too low. Then they were quiet on the subject. But now that most American-produced lumber comes from private forests, government subsidies are anathema.

In Seattle, Robb Dunn, president of a chain of ten lumber stores, says his customers will just have to put up with higher prices. Some reckon the tariff will increase new-home prices by as much as $1,500. That may be a bit high; although lumber prices have gone up lately, they are still below the peak reached last summer. And rising interest rates may slow the American housing market, cutting demand.

The two sides hope to continue talks. One way out might be an agreement under which Canada taxes its lumber companies until it reforms its pricing policies to America's satisfaction. But Mr Allan, for one, is not optimistic. The United States, he says, has not negotiated in good faith: “Its government just can't get a grip in its timber industry, which is too powerful.”

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About sponsorship

Latecomers to teaching

The door opens

Mar 28th 2002 | CHICAGO
From The Economist print edition

It's getting easier to change your mind and become a teacher

AP

Better as a second career?

ARE you reasonably well educated, in mid-career, and do you sometimes think of chucking it all in and becoming a schoolteacher? If so, you are not alone. A growing number of teachers in American state schools have entered the classroom in their mature years. State governments, fearing a teacher shortage, have made it easier for clever people to switch into education from other fields. And a lot of Americans have decided that public-school teaching is not such a rotten job after all.

Some 45 states and the District of Columbia now offer an “alternative route” to a teacher's licence, up from only a handful in the 1980s. Alternative certification (AC) generally allows individuals with a university degree to begin teaching immediately after passing an entrance examination. These recruits, watched over by a mentor, teach the subject they studied at university, and take education courses at a sponsoring university while drawing their salaries.

Some 175,000 teachers have been trained in this way, says Emily Feistritzer, president of the National Centre for Education Information. The centre has found that 20 states have created 34 new AC programmes of this sort in the past three years, and it reckons that as many as a third of all new teachers now enter the profession this way. This is a breathtaking departure in the staid world of public education.

Top of the class

A conventional teacher's licence usually requires a university degree in education plus an unpaid term of practice teaching. This has never made much sense. It excludes bright students who take degrees in other subjects, and might teach those subjects; it is costly and time-consuming for career-switchers, who must wait a year or more before they can enter a classroom; it is so rigid that private-school teachers or university professors with years of experience have to jump through hoops before they can start teaching in a state school. And there is virtually no evidence that it creates better teachers. For all that, it is strongly backed by schools of education, which have a monopoly of teacher-training, and by teachers' unions, whose members make more money when it is artificially hard for others to get into the profession.

So why the change? The short answer: supply and demand. A lot of older teachers are retiring just when a lot of new students are entering the public schools. It is reckoned that American schools will have to hire more than 2m new teachers over the next decade. So the door has opened to other ways of finding them.

Some of the new interest in teaching is the result of post-September-11th altruism. Another factor is the economy's recent weakness, which has made steady teaching jobs look better. And, more generally, teaching is one of the few jobs that leave the summer free and offer convenient hours for parents with school-age children. Even the salary, measured by the hour, is not so bad. In an age of job-hopping, people are tempted to think of teaching as something they might do before or after they do something else, says Chester Finn, president of the Fordham Foundation, an education think-tank.

The traditional sort of American teacher is likely to be young, white and female. Alternative certification attracts more men and more non-whites. In Texas, for instance, roughly 90% of public-school teachers

are white, but 40% of those who have joined through alternative certification are non-whites. The AC route also draws teachers willing to go where they are most needed. A survey of Troops to Teachers, a programme that turns ex-soldiers into public-school teachers (“Proud to serve again”), found that 39% of those taking part are willing to teach in inner-city schools, and 68% in rural areas.

Are they good teachers? Officialdom is reluctant to release the details which might answer that question for certain. But anecdotal evidence suggests they do well. In New Jersey, which has been running this sort of programme since 1984, rich districts, which can afford to be choosy, consistently hire more AC teachers than poor districts do. In Houston, Texas, where the Teach for America programme (TFA) puts recent university graduates into poor communities as teachers, the most effective teachers are generally the TFA ones. “School principals are our biggest fans,” Wendy Kopp, TFA's president, says proudly.

So why not scrap the cumbersome teacher-licensing laws? Frederick Hess, a professor at the University of Virginia, has written a paper for the Progressive Policy Institute arguing that teacher-licensing ought to be stripped to the bare essentials. Prospective teachers should be required only to hold a college degree, pass a test of essential skills, and be checked to make sure they do not have a criminal background. Other training is important, argues Mr Hess, but the market, not state legislators, should decide what that training looks like. This notion of “competitive certification” has drawn favourable attention from the Bush administration.

The education establishment has not attacked alternative certification head-on. It is just trying to “co-opt” it, says Mr Finn. New AC teachers are often subjected to the same insipid, irrelevant education courses as conventionally trained teachers, albeit in the evenings, at the weekend, or over the summer. The AC programmes are at risk of becoming little different from ordinary teaching. You should never underestimate the power of bureaucrats to spoil a good thing.

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Homosexuality

Family feeling

Mar 28th 2002 | RICHMOND AND SAN FRANCISCO
From The Economist print edition

Homosexuals seem to be winning more legal battles than they are losing

MURDER or not, the horrible death of Diane Whipple has set a legal precedent. Last year Ms Whipple was killed just outside her San Francisco apartment by two huge dogs owned by her neighbours, Marjorie Knoller and Robert Noel. On March 21st a jury in Los Angeles found Ms Knoller, who was present when the attack took place, guilty of murder, and her husband of manslaughter. Never before had a Californian jury found a dog's owner guilty of murder in a mauling death.

Ms Knoller is likely to appeal against the verdict. But another legal change ushered in by the case is already secure. Ms Whipple was a lesbian, and Sharon Smith, her partner, has sued Ms Knoller and Mr Noel for wrongful death under laws previously applicable only to married couples and the families of victims. A judge confirmed Ms Smith's legal standing as a de facto spouse last summer. Since then California's legislature, having heard testimony from Ms Smith, has passed a bill confirming that homosexual couples have the same rights as married heterosexuals.

AP

Diane died

The legal standing of homosexuals varies from state to state. Vermont, which last year introduced “civil unions” bestowing on homosexuals everything but the terminology of marriage, matches California's recognition of full legal rights. On the other side, 13 states still have statutes outlawing some homosexual behaviour, and 36, including California, have passed laws in “defence of marriage” which baldly state that marriage can exist only between a man and a woman.

AP

Sharon sued

A fresh front in the battle to gain equal rights for homosexuals has opened up in Florida, which has some of America's least welcoming laws for homosexual families. Along with Mississippi and Utah, Florida bars homosexuals from adopting children. Several homosexual couples with foster families face the prospect of having children taken away, despite the harm this could do to them.

The American Civil Liberties Union has sued the state on behalf of three such couples, and the case has gained wider publicity thanks to the involvement of Rosie O'Donnell, a television figure who is herself a lesbian foster-mother. Ms O'Donnell, whose popularity is based on her down-to-earth straightforwardness, has presented herself as a counter to the suspicion that homosexual parents are exotic threats to normality.

More scientific support for scrapping Florida's ban on adoption by homosexuals has recently come from the American Academy of Paediatrics, which in February issued a summary of research into whether parental homosexuality affects children. The report concluded that medical evidence, though thin in some areas, suggests that children with homosexual parents face the same prospects for their health and development as those with heterosexual parents. The departure of a parent from home through divorce, death or another cause of separation has far more impact on children than a parent's sexuality. The academy urged full legal rights, including adoption, for homosexual parents, saying that children “deserve the security of two legally recognised parents.”

In Virginia, Mark Warner, the new Democratic governor, has renewed an old argument by tussling with the governing board installed by his Republican predecessor at the Housing Development Authority, which gives low-interest loans to help residents of the state buy houses. The agency has a “family law”, limiting its loans to married couples, but Mr Warner would like the money to be available to domestic partnerships of all kinds.

Conservatives have reacted furiously. A proposal to establish the family rule as state law, banning loans even to single parents, has sailed through the House of Delegates (though it will not come up for a final vote until next year). But Mr Warner, who can nominate people to the housing authority's board, should win in the end.

Interestingly, the Virginia debate has an economic angle. Although Mr Warner was elected with the help of homosexual-rights supporters, his administration has gone to some lengths to depict the rules not as a sweeping social statement but just sound business, good for the housing market. On a similar note, conservatives have claimed that proper families, as they see them, are less risky borrowers.

Economic arguments can change policy on granting rights to homosexuals. Florida has 3,400 children in foster-care ready to be adopted, and its ban on homosexuals reduces the potential pool of adopters. Visitors seeking civil-union ceremonies have contributed to Vermont's tourist economy. A recent study by the Brookings Institution, a Washington think-tank, found a correlation between the extent to which a city welcomes homosexuals and its economic success.

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Bioterrorism

Linking anthrax and al-Qaeda?

Mar 28th 2002 | WASHINGTON, DC
From The Economist print edition

It exists, but the anthrax attacks were still probably home-grown

ON MARCH 23rd, the *New York Times* revealed that one of the September 11th hijackers could well have had anthrax. Last June, Ahmed al-Haznawi visited a doctor in Florida, Christos Tsonas, about an ugly dark lesion on his leg. Dr Tsonas, who prescribed an antibiotic, later told the FBI that, on reflection, the lesion "was consistent with cutaneous anthrax".

This is not the first link between the hijackers and bioterrorism. Last October, a pharmacist in Florida said Mohammed Atta had come looking for treatment for suspicious-looking burns on his hands. But this time there may be more in it. A team from the Johns Hopkins Centre for Civilian Biodefence Stategies, which reviewed al-Haznawi's case, said Dr Tsonas's diagnosis was "the most probable and coherent interpretation of the data available.""Such a conclusion," the team argued, "raises the possibility that the hijackers were handling anthrax and were the perpetrators of the anthrax letter attacks." Does it?

Yes to the first part. American forces recently discovered a half-finished laboratory near Kandahar, which they believe was intended to produce anthrax (though no biological agents were, in fact, found there). Captured documents also show al-Qaeda is trying to produce biological weapons. But what about the second part: that its operatives were responsible for the anthrax letters?

The letter to Tom Daschle, the leader of the Senate, contained "weaponised" anthrax. Even if al-Qaeda terrorists had been able to produce the organism itself, they would still have needed expert help to turn it into a weapon. The process of weaponisation is technologically advanced. It requires spores to be concentrated into a powder with individual grains smaller than three microns, and then mixed with chemical agents that keep the spores dry and airborne.

Any number of government laboratories around the world may be working on weaponising anthrax, but the Daschle attack seems to have originated at home. The strain used was American, the Ames strain. Either the attackers had access to an Ames strain that had already been weaponised—in which case they can only have got it from a handful of western military laboratories. Or they had access to the information necessary to weaponise anthrax, in which case the most likely explanation for the use of the Ames strain was that it was close to hand. Either way, the virulent anthrax in Mr Daschle's letter seems to have come from a domestic source.

The implication is disturbing. There could be two terrorist anthrax-breeding operations—the half-built affair discovered in Afghanistan, and the one that produced the letter to Mr Daschle, which is presumably run by a disgruntled scientist in an American laboratory. More disturbing is the possibility that the two may be linked. For, if it was an anthrax infection, how did the American-based al-Haznawi get infected in the first place?

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About sponsorship

The real West Texas

Where Dubya met Dostoevsky

Mar 28th 2002 | MARFA, TEXAS
From The Economist print edition

How is the president doing in the country he claims to come from?

Get article background

GEORGE BUSH is proud of West Texas, by which he usually means Midland, the rich, conservative oil town where he was raised and made his first stab at politics. But the West Texas of popular imagery—and perhaps of Mr Bush's more romantic moments—is 200 miles (320km) south-west of Midland, in the high Chihuahuan desert. Two massive counties, Presidio and Brewster, take in an arid area larger than Delaware, Rhode Island and Connecticut combined. The sparse population—16,000 at last count—spends its days keeping Mexicans out, luring tourists in and minding the skinny cattle that pick cheerlessly through the cactus-studded moonscape.

Marfa, Presidio County's seat, offers itself as “the way the west used to be”, although it got its name from a character in a Dostoevsky novel. Its chief claim to fame is as the location for “Giant”, a James Dean film, and more recently as the home of Donald Judd. When the artist found Marfa in the early 1970s, attracted by the crystalline desert light, the town was dying on its feet. He bought a disused cavalry barracks and much of the main street to house his works. Other artists—and an espresso bar—followed. Cowboys and artists still mix like “oil and water”, but both claim to have come closer after September 11th. “We kind of realised we had more in common,” says a patron of the espresso bar.

The Border Patrol maintains a large presence in Marfa and keeps watch over the southern part of Presidio County, where a solitary paved road drops down out of the mountains to meet the broiling floodplains of the Rio Grande. The river, which marks the border with the Mexican province of Chihuahua, is pitifully small and septic at this point, having been drained upstream by the border conurbation of El Paso-Juarez.

The dusty streets of Presidio County's largest town, also named Presidio, strung out beside the river, are almost as poor and shabby as those of Ojinaga, on the Mexican side. Most of the cars parked at the Presidio post office are registered in Chihuahua, not Texas, and it is Mexican pop music, not Nashville, which plays in El Alamo, a local restaurant. Let no one doubt the loyalty of El Alamo's diners, though. “I'm an American veteran,” says an elderly man born in Mexico. He voted for Al Gore, along with most of Presidio County, which is 84% Latino, but thinks Mr Bush is doing a good job.

Drive east from Presidio along the river road, where Mexican *vaqueros* can be seen leading their horses across the river, and you reach Terlingua, once a ghost town but now a vital encampment of climbing and river guides, writers and hippies. Terlinguans came out strongly for Ralph Nader and are inclined to treat Mr Bush—and his notion of evil—with derision. “He's the worst of West Texas,” says a climber, originally from Oregon.

But 90 miles north, in Alpine, the seat of Brewster County, they are more forgiving of Mr Bush. A story about a Latino family donating a large American flag to the town's tiny state university, in Alpine's weekly paper, the *Avalanche*, captures the mood. It didn't seem right, the family patriarch said, that the Texan flag flown at college sporting events was so much bigger than the accompanying Stars and Stripes. “Not after September 11th.”

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Standing in line

The taming of the queue

Mar 28th 2002 | WASHINGTON, DC
From The Economist print edition

An answer, of sorts, to useless government

QUEUES are long. Life is short. So why waste time waiting when you can pay someone to do it for you? In Washington, DC—a city that grapples with more than its share of red tape and paper-shuffling—a small industry is emerging that will queue for you to get everything from a driver's licence to a seat in a congressional hearing.

Michael Dorsey, one of the pioneering “service expediters”, began going to traffic courts for other people back in 1988. Today his fees start at $20 and can go into the thousands to plead individual cases at the Bureau of Traffic Adjudication (his former employer). Mr Dorsey knows what a properly written parking ticket looks like, and often gets fines waived on technicalities. His clients include congressmen and diplomats, as well as firms for which tickets are an occupational hazard, such as taxi operators and television broadcasters.

Service expediters are not universally loved. Non-tax income, like fines and fees, makes up about 7% of local-government revenue in Washington. Mr Dorsey alone relieves that fund of $150,000 a year. Meanwhile, citizen advocacy groups whinge about expediters such as the Congressional Services Company and CVK Group that specialise in saving places for congressional hearings. Committees hearing hot topics such as energy regulation often do not have enough seats. Why should a well-heeled lobbyist who has paid $30 an hour to a professional place-holder nab the place? Critics say this perpetuates a two-tiered system: the rich get good government service, but the poor still have to wait.

This seems a little harsh. Service expediters can hardly be blamed for creating the shoddy system they profit from. Anyway, it's not only rich corporate types who benefit from their services. Poor foreigners with little English hire expediters to navigate the ticket-fighting process; so do elderly and disabled people who want to “outsource” errands that require long hours standing in line.

And, who knows, the service expediters might even shame the bureaucrats into pulling their socks up. Back in 1999, Washington's mayor, Tony Williams, promised to liberate citizens from the tyranny of the government queue. Things have got a bit better, but the 20-minute task of renewing a driver's licence can still take days. Hiring an expert to confront the bureaucratic beast on your behalf takes care of that.

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Lexington

George Bush, McCainiac

Mar 28th 2002
From The Economist print edition

How the president has almost become the man he trounced in the primaries

IF THE battle in 2000 to choose the Republican Party's presidential candidate now seems a world away, it is not just because September 11th changed the world. It is also because George Bush trounced John McCain so thoroughly that he seemed to bury everything the Arizona senator stood for.

Back then, the two men appeared to have nothing in common. While Mr Bush campaigned as the choice of the Republican establishment, Mr McCain rampaged against “special interests” and made campaign-finance reform the centrepiece of his domestic agenda. In economic policy, Mr Bush argued for big tax cuts regardless of circumstances; Mr McCain said tax cuts should be proportionate to the size of the budget surplus. Mr McCain wanted an ambitious national-service programme; Mr Bush proposed small-scale “compassionate conservatism”.

But the biggest differences were in foreign policy. The Arizona senator campaigned for a policy of “rogue-state rollback”— by which he meant preventing disruptive small-country dictators getting their hands on weapons of mass destruction, if necessary by arming the local opposition. Mr McCain was the only candidate on either side to promote this theme, and hardly anyone took him seriously. Mr Bush, in contrast, talked about managing great-power relationships and repairing the damage done to America's ties with China, Russia and Europe after, as he saw it, eight years of Clintonian inconsistency. Mr McCain spoke stirringly or scarily, according to how you see these things, about “national greatness”. Mr Bush called soothingly for greater humility in projecting American power abroad.

The primary campaign ended rancorously. Malicious personal attacks on Mr McCain's family and war record went unrepudiated. No one from the McCain campaign got a job of any significance in the Bush White House. And since his election the president has not followed any of his rival's specific proposals.

Yet, if you look at the ideas that currently animate Mr Bush's presidency, they are about as McCainiac as you can get without having spent five years as a Vietnamese prisoner-of-war. In the next couple of weeks, the president will sign the campaign-finance bill that the senator has shepherded so assiduously through Congress for so long. (He will sign it through gritted teeth, to be sure, but sign it he will.) In his state-of-the-union speech in January, Mr Bush not only proposed a new federal bureaucracy to encourage the growth of volunteerism (shades of Mr McCain's national-service idea) but also delivered his famous warning on the “axis of evil”, rhetorically reformulating Mr McCain's “rogue-state rollback”.

Suddenly, “national greatness conservatism”—Mr McCain's *amour fou*—has become the passion of the White House too. Confronting threats from small dictatorships, not managing relations with big powers, has become the focus of the presidency. Mr Bush has defined his presidency in terms of success in the war against rogue states and terrorists. To make the comparison complete, Mr Bush has been telling anyone who will listen that he has been reading Edmund Morris's new book on Teddy Roosevelt, one of Mr McCain's often-quoted heroes.

A split personality

It is almost as if the Arizona senator had won the election. How on earth did this happen? Mr Bush came to his present position along a route very different from the one travelled by Mr McCain. You might say

that, while some achieve national greatness, Mr Bush has had national greatness thrust upon him. That does not make his espousal of it insincere. But he still does not see the broader horizon the way that Mr McCain sees it.

For Mr McCain, “national greatness” was all of a piece, its domestic and foreign components tied together by the thread of reform. At home, that meant changing the campaign-finance system to break the “iron triangle” of politicians, lobbyists and donors. Abroad, it meant changing corrupt regimes which threaten the West, and encouraging the spread of democracy.

Mr Bush agrees on that last point. But he does not see the policies fitting together in the same way. The foreign component stands on its own, with little domestic counterpart. Mr Bush is no enthusiast for campaign-finance reform (indeed, he used to oppose it). He accepts it for tactical reasons. The new law helps to defuse criticism that he is too close to big business—a potent charge in the wake of the Enron affair. It is also a convenient way of appealing to swing voters in the 2004 election. Similarly, his support for volunteerism has more to do with “rallying the armies of compassion” on behalf of the poor than with Mr McCain's muscular notion of national service “in a cause greater than your self-interest”, and to back up the professional army. At home, Mr Bush accepts some of the conclusions of the “national greatness” agenda, but not the arguments behind them.

Even that is a credit to Mr McCain. Whether by prescience or luck, he was the first to reach out for the policies that fit the new world wrought by September 11th. Despite his defeat, he laid much of the groundwork for Mr Bush's post-September presidency. But the credit to Mr Bush is probably greater. He has proved quicker to adapt his views than anyone expected, switching seamlessly from great-power maintenance to rooting out terrorists and showing his independence from the Republican establishment by pinching ideas from his rival.

This transformation contains an irony and a question. The irony is that, because the president dominates his party in a way the maverick Mr McCain could never have done, Mr Bush has proved a better spokesman for McCainiac ideas than Mr McCain could ever have been. The question is whether the domestic-reform part of Mr McCain's agenda will ever achieve the same influence that its foreign-policy part wields with the Mr Bush who now holds sway in the White House. National greatness cannot all be overseas; its roots must grow at home.

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Argentina's crisis

Waiting for the IMF to tango

Mar 28th 2002 | BUENOS AIRES
From The Economist print edition

AP

With outside help slow to arrive, both the peso and President Eduardo Duhalde's government are sagging

Get article background

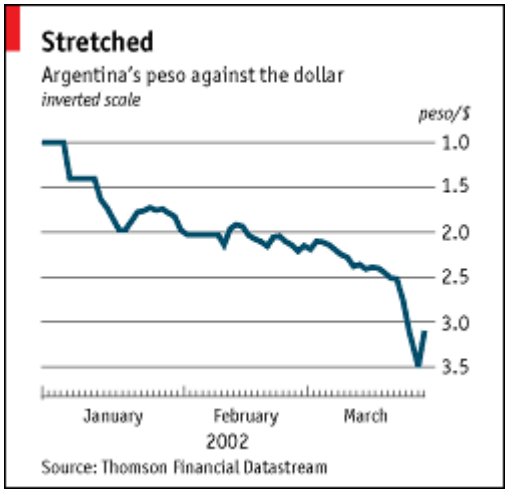
TIRED and downcast on his return from a UN aid conference in Monterrey, Mexico, last weekend, Eduardo Duhalde tried to persuade his countrymen that he had something to show from his first foreign trip since he became Argentina's president in January. But his meetings in Monterrey with Horst Köhler, the IMF's boss and Paul O'Neill, the United States' treasury secretary, produced only the news that the IMF will start formal talks on a rescue package in April. Any loan may be less than half the $20 billion Mr Duhalde wanted, and it remains subject to a long list of conditions. And when might it arrive? “Maybe in three months,” said Mr O'Neill.

Argentina's currency and its government may not be able to wait that long. Mr Duhalde floated the peso in February, after the collapse of the country's fixed exchange rate. Recently, the peso's fall has turned to rout as Argentines queued at foreign-exchange houses, desperate for dollars at any price. On March 25th, the government imposed controls aimed at calming financial hysteria: the exchange rate for sales of less than $1,000 to individuals will now be set by the central bank. That brought temporary relief (see chart).

The peso's latest plunge was prompted partly by the melting of a freeze on bank savings imposed in December. Known as the *corralito* (or little fence), this triggered the bloody protests that brought down the government of Fernando de la Rua. But in January, under public pressure, the Supreme Court ruled the *corralito* unconstitutional. That prompted Mr Duhalde's congressional allies to start impeachment proceedings against the court. In apparent retaliation, the judiciary has granted injunctions returning deposits to tens of thousands of savers. Unless this haemorrhage is stopped, many banks may soon collapse (see article).

Surveys show that the price of a “basic basket” of groceries has risen by up to 50% since the start of the year. Argentines have begun hoarding household supplies. They fear the return of the

hyperinflation that they suffered in 1989-90. Mr Duhalde is said to be preparing an emergency food-distribution scheme; he has pondered on price controls, though he admits these would be hard to enforce.



The economy's decline is continuing unchecked. So far this year, industrial output is around 15% below that of the same period last year. Argentines fear shortages of home-made goods, as well as imports. Though protests have subsided, falling living standards could stoke them again.

For Argentina to start recovering, Mr Duhalde needs the boost to confidence that an IMF agreement would bring. But several things still stand in the way. First, there is the fiscal question. Congress has approved a budget which cuts spending by 14%. But the fall in tax revenues means further cuts may be required. Despite a commitment to do so, provincial governments are making little effort to rein in their deficits. Instead, they are paying some bills with scrip—exchangeable IOUs which may never be redeemed.

The IMF wants a more watertight reform of provincial finance, and a more realistic budget. One way of achieving these would be to cut the hordes of political appointees at all levels of government. Such steps are the more urgent since Mr Duhalde faces demands to spend more on the poor, and on propping up the banks. The Fund also wants changes in a new law on bankruptcy (which favours debtors). Mr Duhalde has said he may not be able to achieve much of this, though he said he will try to amend another law, against “economic subversion”, which had lain unnoticed for years until prosecutors started using it against bankers.

For the time being, Mr Duhalde retains the support in Congress both of his own Peronists and of Mr de la Rua's Radicals. But such support could evaporate if protesters return to the streets. Defections have started: Jorge Capitanich, the president's chief of staff, has said he will soon step down, without even telling his boss first.

Mr Duhalde says there is no “Plan B”. Others are proposing alternatives. Pedro Lacoste, an economist, suggests removing the *corralito* and allowing the currency to fall. He argues that the central bank's reserves of $13 billion would be easily enough to buy up savers' freed (but devalued) pesos, thus eventually bringing stability to the exchange rate. Others suggest outright dollarisation, before the peso's plunge triggers hyperinflation. If Argentines continue to eschew pesos, dollarisation may happen anyway.

This discussion reflects a growing fear that the longed-for deal with the IMF may never come. Noting that neighbouring Uruguay has received swift IMF aid, some Argentines claim that their country is being made an example of for defaulting on its $155 billion public debt. But having been criticised for being over-lenient with previous Argentine governments, IMF officials seem determined to be tougher now.

Mr Duhalde, a populist now apparently converted to pragmatism, still inspires mistrust abroad. He came back from Monterrey seemingly shaken at the lack of faith that other world leaders had shown in Argentina. Decisive action in the next few weeks could yet secure an IMF deal, and his government's survival. But both things look to be in the balance.

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About sponsorship

Violence in Peru

After the bomb

Mar 28th 2002 | LIMA
From The Economist print edition

A new battle against terrorism

FOR Peruvians, the lasting memory of George Bush's brief visit to their country on March 23rd will not be his discussions with President Alejandro Toledo on fighting drugs and terror. It will be the mangled cars and strewn limbs in a shopping centre across the street from the American embassy in Lima, the result of a bomb attack that killed nine people three days before Mr Bush arrived.

This brought back a nightmare: between 1980 and 1993, 30,000 people died in a terrorist war unleashed by two guerrilla groups, the Maoist Sendero Luminoso (Shining Path) and the much smaller Tupac Amaru Revolutionary Movement (MRTA). The carnage ended only after the leaders of both groups were captured and jailed. In solitary confinement, Abimael Guzman, Sendero's founder, signed a peace accord with the government of Alberto Fujimori in 1993. Most Senderists accepted the accord, and melted back into normal life. By the end of the 1990s, Mr Fujimori claimed to have all but wiped out the remaining Senderist diehards.

So who was behind last week's bomb? Speculation has ranged across al-Qaeda, Colombia's FARC (unlikely, said the country's president, Andres Pastrana), the remnants of both Peruvian groups, and cronies of Mr Fujimori (now in self-exile in Japan) and Vladimiro Montesinos, his jailed former spymaster. “There are many possible suspects but the information we have points to the faction of Sendero that is against the peace accord,” says Gino Costa, the deputy interior minister.

In fact, Sendero was never wholly vanquished. Small groups hung on in three remote areas. They have become more active since the collapse of Mr Fujimori's regime in 2000, helped by the army's withdrawal of bases, and by its demoralisation (dozens of commanders were accused of corruption). The diehards number around 400 fighters. They retain links with the drug trade. But they have changed their tactics. In the past, they seized food; now they pay, in dollars, and promise not to attack civilians, say villagers.

The bomb explosion came amid signs that one of the diehard groups, that in the Huallaga valley, was preparing to sign up to the peace accord. The bomb may have been intended to thwart that. The groups in the Ene and Apurimac valleys remain defiant. In November, two Senderists from those areas were arrested in Lima, with maps of the American embassy.

But officials do not rule out the existence of a right-wing paramilitary group linked to Mr Montesinos. Among the charges he faces is one of having arranged a dynamite attack on a bank (killing six people) to discredit an opposition protest march in July 2000. And police say that last week's bomb seemed more sophisticated than Sendero's usual handiwork.

Whoever did it, the bombing is a big challenge for Mr Toledo's government. But blame for the failure to prevent it lies in part with Mr Montesinos, who ran the intelligence service as a personal fief for a decade. He ordered most of its files to be burned before going on the run himself.

The new government had already put the anti-terrorist police in the hands of two policemen who tracked down and captured Mr Guzman. But rebuilding the intelligence service will take time. After the bomb, Mr Toledo said this will be speeded up, promised (rashly) to double the interior ministry's budget, and called on Congress to widen a plea-bargaining law to apply it to terrorists who inform on their colleagues.

With the collapse of peace talks in Colombia, Peruvians were already worried about violence spilling across their border. Partly because of that, the United States has tripled anti-drug aid to Peru. At their meeting in Lima, the Andean presidents agreed with Mr Bush to share security information. But Peru's security problems look home-grown.

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The United States and Latin America

Frustrated

Mar 28th 2002
From The Economist print edition

Amigos but not full partners

GEORGE BUSH seems to like Latin American leaders, and—to judge by the declarations of personal friendship proffered during his four-day swing through Mexico, Peru and El Salvador from March 21st-24th—they want to be liked by him. But talk of “amigos” apart, both sides might be wondering what the trip achieved.

Its highlight was the extra foreign aid, mainly for Africa, announced by Mr Bush before he arrived at a UN development conference in Monterrey, Mexico. His hosts in the region wanted concessions on migration and trade. But in Mexico, he merely unveiled a new scheme aimed at maintaining security along the border without hindering trade. Mr Bush wants to renew (and expand to textiles) the Andean Trade Preference Act, an initiative of his father's to encourage alternatives to drug production. But Mr Bush admitted that this was “stuck in the Senate”. And he did not announce a date for the start of proposed free-trade talks with Central America. Nor did he have much to say about Argentina's plight.

A decade ago there were high hopes of a new partnership between the United States and Latin America. Now both sides feel frustrated. “Everywhere, there were calls for the United States to give things, and very little about what Latin America offers in return,” says Peter Hakim, of Inter-American Dialogue, a Washington think-tank. And one ancient awkwardness remains: at Monterrey, Mexican officials invited Cuba's Fidel Castro to depart early, to avoid any encounter with Mr Bush.

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The South Atlantic

A breezy, squid-rich paradise

Mar 28th 2002 | STANLEY
From The Economist print edition

Twenty years after Britain and Argentina went to war over them, the Falklands are enjoying unprecedented prosperity

"THE internal economy of the Falklands is in grave danger of collapsing in the next five years or so without continued support," concluded the Shackleton Report, drawn up in late 1982, a few months after Argentine forces had seized the islands and an expeditionary army sent from Britain had seized them back. Even before it was wrecked in the war, the islands' economy had been crumbling. Output had fallen by a quarter between 1974 and 1980, the report noted, and the population, sapped by emigration, had dwindled to 1,800.

Before the war, the prospect of continuing to subsidise an ailing colony 12,500km (7,800 miles) away in the South Atlantic had led Britain to try to give the Falklands to Argentina, which claims sovereignty over them and knows them as the Malvinas. Only the protests of the islanders, overwhelmingly British by descent, had stopped this attempt. Eventually, Leopoldo Galtieri, Argentina's dictator, got fed up with waiting and decided to snatch the islands, only to be thwarted when Margaret Thatcher, Britain's prime minister, decided on war in order to avoid national and personal humiliation.

Things have changed greatly since then. The return of former islanders and the arrival of new settlers have sent the population (excluding the British military garrison and its support staff) back to its 1930s peak of 2,400, though humans are still greatly outnumbered by 670,000 sheep and more than 1m penguins. Stanley, the capital, is now twice the size it was in 1982. As well as many smart new houses, there are more shops, bars and restaurants, and two taxi firms compete for business.

Fishing-fuelled prosperity

What transformed the Falklands' prospects was the discovery, a few years after the war, that the waters round the islands were teeming with huge quantities of seafood, especially two types of squid: *illex*, a delicacy widely enjoyed in East Asia; and *loligo*, served up as *calamares* in Spain and other Mediterranean countries. The Falklands declared a 200-mile fisheries-conservation zone and proceeded to grow rich by selling fishing licences. By 1991, Britain was able to stop providing economic aid to the islands, though it continues to maintain its military garrison there, costing around £70m ($100m) a year.

The fisheries money has transformed life in the Falklands. Though the islands are two-thirds the size of Wales, there were until recently few roads outside Stanley. Now 550km of roads have been built and another 300km are planned. Housing is subsidised. Health care is free. Twenty years ago, few children other than those of landowners completed their education. Now there is a big new secondary school in Stanley and its primary school has been refurbished. The islands' government pays for increasing numbers of youngsters to attend university in Britain. And, these days, most come back afterwards.

The Shackleton Report worried about a shortage of young women for the islands' lonely bachelor shepherds. But immigration has almost restored the balance of the sexes, and nightlife at weekends is lively. Islanders used to spend much of their time digging peat for fuel; now most homes have oil-fired central heating. Previously, they would struggle to grow a few vegetables in their gardens; now, a market garden set up with a government grant supplies fresh produce all year round. Telephone

connections have greatly improved. Half of all households have Internet access. Stanley has cable television. Islanders have the money to import whatever they want, by air (there are weekly flights from Britain and Chile) or on the ship that arrives from Britain every two months.

The Falklands remain unmistakably British, from their red telephone kiosks to the banknotes bearing a portrait of Queen Elizabeth. But, apart from their low crime rate, they are not stuck in a 1950s version of Britain. Nor are they controlled by Britain, in most respects. Constitutionally, Donald Lamont, the governor of the Falklands, rules them on the queen's behalf, and Britain sees to their foreign policy and defence. But the eight elected members of the Falkland Islands Council decide almost everything else.

Other than making the islanders feel secure, the British garrison (perhaps 1,000 military personnel and 500 support staff) has surprisingly little effect on their lives. After the war a decision was made to build a new airport at Mount Pleasant, 55km from Stanley, and to build the garrison alongside it. Since then, MPA, as it is universally known, has become a self-sufficient town, with its own housing, shops and leisure facilities.

Although the British navy guards the Falklands against invaders, the islanders have their own fisheries-protection vessels. In 1998, after an invasion of unlicensed Taiwanese ships, they persuaded Britain to let them arm one of the vessels with a cannon. In 2000, it blew a hole in the bow of a Taiwanese ship, forcing its crew to surrender. Since then, the poachers seem to have gone away.

The islands are investing in scientific studies to try to understand the breeding and migrational habits of the fish they depend on. The *illex* squid and some valuable fish migrate between Falklands and Argentine waters and, until recently, there were signs that Argentina was allowing over-fishing. However, under a controversial agreement signed in 1999, Argentina agreed to improve co-operation on fisheries conservation in return for its passport holders being allowed to visit the Falklands, something which had been forbidden since 1982.

Pound for pound

Until recently, one of the few things that the Falklands had in common with their nearest neighbour was that both had a currency board (but Argentina's collapsed in December). For every Falkland Islands pound in circulation, the government keeps reserves of £1.10 in sterling, which must be swapped on demand. But unlike Argentina, whose debts have bankrupted it, the Falklands not only have no public debt, but have savings equivalent to two years' public spending. In late 2001, when Argentina was weeks away from defaulting, the main issue in the Falklands' election was what to spend their money on. More roads? Sheltered housing for the elderly? Or pile up more money in the bank?

Another election issue was the 90 public employees currently working in the islands on temporary contracts, mostly from Britain. Some islanders complain that these are depriving locals of good jobs. But a tiny community like this will always have to buy in some specialist skills from abroad. Besides, the contract workers form the main source of the steady trickle of suitable settlers—well-educated, acclimatised and, whisper it, British—that the islands are seeking.

Although squid keep the islands ticking over nicely, it makes sense to diversify. The Falklands are now beginning to farm mussels and oysters for export, and they are looking at sheep again. Almost all the islands' income used to come from wool production. But wool prices have been depressed for years, so many farmers have left the countryside (known in the Falklands as “Camp”) to move to Stanley, where there is well-paid temporary work on the fishing boats. In the 1930s, half of the Falklands' population lived in Camp; now a sixth does, and many farmhouses are abandoned.

The Falklands produce a surplus of sheep meat, too; but it is not up to EU standards, so they cannot export it, and the soldiers in the garrison are not allowed to buy it. Mutton-canning was tried in Goose Green at the start of the last century, with little success. But the government has just built a new abattoir (which, it hopes, will win it EU certification shortly), and is pinning its hopes on the growing market for organic meat and on the lack of disease among the islands' livestock.

Even if meat production does not become a money-spinner, income from eco-tourism may help to stem the flight from Camp. Johnson's Harbour, a farming settlement two hours' drive from Stanley on one of the new roads, now earns more from charging visitors £10 to see its penguin colonies than it gets from selling wool. Although only about 3,000 people a year take their holidays in the Falklands, this is ten times the number who visited the islands before the 1982 war. As the numbers have grown, some

deserted farmhouses, especially on the remoter islands which boast the most spectacular wildlife, are being turned into holiday lets.

The boom in Antarctic cruises since the early 1990s means that up to 40,000 wealthy eco-tourists are expected to sail through Stanley harbour during the current summer season (October to April), many on former Soviet “research vessels” (ie, spy ships) that a hard-up Russia has let western holiday firms use for comfortable expeditions. On days when a cruise ship is in port, Stanley is overrun with wealthy North Americans and Europeans itching to spend. A new tourist centre and several gift shops have opened recently, selling products made on the Falklands' farms, from chunky woollen sweaters to jewellery made from the shiny pebbles that wash up on the islands' beaches.

Getting on with the neighbour

For many years the islands have dreamed of discovering large reserves of offshore oil. In 1998, exploratory drilling found the right rock formations, but no oil. The islanders have not given up hope, and are inviting fresh drilling applications: “We'd like to find oil so that we could afford our own defence,” explains Jan Cheek, an island councillor. However, if large, exploitable reserves are found, they might attract Argentina's interest, too.

Britain occupied the islands permanently from 1833, after it and other colonial powers had intermittently settled and then abandoned them. Argentina points out that Britain expelled a small group of settlers from Buenos Aires (which on declaring independence in 1816 had taken over a Spanish settlement on the islands) and continues to claim sovereignty over the Malvinas, mainly based on this fact. These days, however, it has renounced the idea of taking the islands by force. Relations have improved steadily since Argentina's return to democracy, a change set off by the dictatorship's defeat in the 1982 war. As well as increasing co-operation over fisheries conservation, there are talks about letting Argentina build a monument on the islands to its war dead, and on clearing the many minefields Argentine forces laid during the conflict.

Some islanders felt that they did not get enough in the 1999 agreement in return for letting Argentine passport-holders visit the Falklands. Others see it as a victory that Argentines, on arrival, have to put up with having “Government of the Falklands: Visitor's Permit” stamped in their passports. Sergio Amadeo, a visitor from Buenos Aires, admits to being greatly impressed with the way such a small community has created a comprehensive and efficient government, though he is sad at the way the islands' prosperity has allowed them to turn their back on Argentina. “Looks like they are on the road to independence,” he sighs.

Having seemed, 20 years ago, not worth fighting over, the islands are prosperous, self-confident and increasingly able to run things the way they choose.

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About sponsorship

Muslims in China

Tarred with bin Laden's brush

Mar 28th 2002 | KASHGAR, KHOTAN AND URUMQI
From The Economist print edition

AP

September 11th gave China a handy excuse to repress its discontented Muslim minority in Xinjiang. Not that it really needed one

THE dust-blown towns and villages on the southern edge of the Taklamakan desert form the front line of what China calls its own campaign against international terrorism. These ancient Silk Road oases, says its propaganda machine, harbour Muslim extremists intent on overthrowing Chinese rule with the backing of Osama bin Laden's terrorist network. That, at any rate, is the official version. Far more plausible, though, is that China is invoking Mr bin Laden's name to justify tight control over its Turkic-speaking Muslims, especially the Uighurs who dominate this part of the Xinjiang “autonomous” region in China's far west.

In one town, a Uighur worker at a mosque waits for the prayer hall to empty before regaling foreign visitors with his grievances. “We want to build our own country, but there's no way. If we try, we are immediately arrested and executed,” he says. Such sentiments are echoed by many Uighurs, whose Islamic culture has far more in common with that of the formerly Soviet Central Asian republics than with the rest of China. Some say that Chinese officials have clamped down even harder since the September 11th terrorist attacks in America, targeting religious activities in particular.

In a report published last week, the human-rights group Amnesty International gave details of what it said was an intensifying campaign against suspected government opponents in Xinjiang. It quoted Uighur exiles as saying that some 3,000 people were detained in the crackdown between mid-September and the end of last year. Some have been sentenced to death and executed after summary trials.

This does not necessarily indicate that China has greatly widened its net since September 11th. By Amnesty's calculation, tens of thousands of Uighurs have been rounded up in the last decade, and as early as April last year, China launched a nationwide “strike hard” campaign against serious crime, which in Xinjiang also targeted the “three evils” of separatism, terrorism and religious extremism. Well before September 11th, the authorities were closing down unauthorised mosques and forcing imams to go to political-indoctrination classes. Mr bin Laden provides no more than a convenient excuse—and a belated one at that—for a continuing campaign of repression in Xinjiang.

On the surface, Kashgar and Khotan—the two best-known hotbeds of Uighur nationalism in southern Xinjiang—still appear relaxed. Apart from slogans condemning separatism draped over the entrances of many schools and other government-run institutions, there is little public evidence of the clampdown. Your correspondent drove the 300-odd miles between Kashgar and Khotan without being stopped for any identity check and saw no special security measures in either town or places in between.

The authorities' low profile is in fact rather curious given China's claim in January that it had arrested more than 100 “terrorists” who had “sneaked into Xinjiang” after receiving training in Afghanistan and elsewhere. A government report said such terrorists had been conducting bombings in department stores, markets and other public places, as well as murdering officials and Uighur imams appointed by the Chinese government.

China says terrorists fighting for an independent “East Turkestan”—the name of two short-lived independent Uighur republics, set up in 1933 and 1944—have carried out more than 200 attacks in Xinjiang since 1990.Yet the most recent explosion blamed on terrorists in the region occurred in 1998. Western diplomats dispute China's claims of complicity in such violence by overseas terrorist groups. Although several hundred Uighurs joined the Taliban in Afghanistan, “there is no evidence of any link between the Uighurs and al-Qaeda,” says a diplomat familiar with the region.

China's portrayal of Uighur separatism as a part of a global terror problem is being seized upon by officials in some parts of Xinjiang to harass the Muslim population. In a village near Kashgar, a Uighur peasant says that he now dares not complain about excessive taxes imposed by the local authorities for fear of being labelled a separatist. A Uighur taxi driver in Khotan says his superiors have begun using the separatist brush to tar anyone who complains about working conditions.

In the Khotan region, the authorities worry about the popularity of the conservative Wahhabi brand of Islam to which al-Qaeda subscribes. “You can't say in public that you support the Wahhabi. Officials think it is anti-government,” says a resident who describes himself as a Wahhabi supporter. But in most parts of Xinjiang, and even in Khotan, Islam is as much if not more a badge of cultural identity than it is a religious conviction. A western diplomat describes the Wahhabism of Khotan as “a protest theology” and says that many “Wahhabis” have little idea what that really means. Most Muslims in Xinjiang practise the mystical—and far more liberal—Sufi form of Islam, which Wahhabis oppose. Some women who wear veils also wear mini-skirts. The puritanism of the Taliban movement would have little market here. One of the very few examples of Uighur interest in pan-Islamic causes was the uncovering by police last June of two cells of Hizb-ut Tahrir, a group seeking to establish an Islamic caliphate in Central Asia.

Many Uighurs, like Muslims elsewhere, are opposed to the military campaign in Afghanistan. Yet they are also grateful for what they see as American sympathy for the Uighurs' plight. Asked who Uighurs regard as the leader of their cause, a 25-year-old trader in the provincial capital, Urumqi, said “the only leader we have is Radio Free Asia”, which is funded by Congress. In its annual human-rights report on China published this month, the American State Department said many Uighurs had been detained for listening to the station, which the Chinese try to jam.

Some Uighurs say their region is even more tightly controlled by China than neighbouring Tibet. Such resentment shows no sign of abating as China pumps more money into the region as part of a strategy adopted in 1999 of encouraging investment in less developed western parts of the country. The perception of many Uighurs is that ethnic Han immigrants, who form some 40% of the region's 18m people (up from a mere 6% in 1949) are profiting most from the money. Should Hans and Uighurs become even more polarised, this could spawn exactly the kind of extremism that China most fears.

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India and China

Bridging the Himalayan divide

Mar 28th 2002 | DELHI
From The Economist print edition

Trade is easing the wariness between the world's two most populous countries

AP

How it could be again

THE armies of India and Pakistan are continuing their long stand-off in the disputed region of Kashmir. But there is some good news this week from India's other flank, its border with China. On March 28th, China Eastern Airlines was due to fly into Delhi from Beijing, inaugurating the first ever direct air link between the world's two largest countries. Jaswant Singh, India's foreign minister, was booked on the return evening flight as the guest of the Chinese government. He is expected to sign a joint agreement on tackling terrorism during his stay in Beijing.

These are useful steps for two nuclear-armed powers which, divided by the Himalayan mountain ranges and contrasting cultures, have until recently barely been on speaking terms. The post-colonial solidarity of the 1950s was shattered by China's victory in a 1962 border war which left a legacy of bitterness and border disputes. China has also annoyed India by supporting Pakistan's military and nuclear development; and India's own nuclear tests in 1998 soured relations further. China resents India for harbouring the Dalai Lama, Tibet's spiritual leader, who fled in 1959, as well as, since 2000, the youthful Karmapa Lama.

These differences are now being edged aside by growing economic links. Annual two-way trade has risen from a few hundred million dollars in the mid-1990s to $3 billion this year, and India hopes to see that rise to $10 billion within five years. Cheap Chinese toys, locks, and other consumer goods are flooding into India. Such competition is causing concern in Delhi; but Indian manufacturers are responding by setting up operations in China to turn out goods varying from tyres to microwave ovens.

India also worries about losing its status as Asia's leading producer of software. Though its software exports this year are expected to top $8 billion to China's $1 billion, China has been sending teams to learn the secret of India's success. Responding to the implicit challenge, Indian software companies such as NIIT and Infosys are moving into China. All this, says an Indian government spokesperson, is “adding value and content to the relationship”. It should also help to fill the seats on China Eastern's twice-weekly flights linking Delhi with Shanghai and Beijing.

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The Koreas

To boldly go

Mar 28th 2002
From The Economist print edition

South Korea is sending an envoy to the North. But is that progress or not?

NOTHING, in dealings with North Korea, is ever quite what it seems. A month ago, South Korea's president, Kim Dae Jung, was worrying aloud that tension on the peninsula had reached a “critical” point, just after the visiting American president, George Bush, had called on North Korea bluntly, from South Korean soil, to stop starving its people to feed its army. Now, ending many months of fruitless talks or none at all, this week North Korea agreed to receive Lim Dong Won, President Kim's special envoy and one of the architects of his controversial “sunshine policy”. The visit, due to start on April 3rd, may even include a meeting with the North's elusive leader, Kim Jong Il. The idea, said a statement from the president's office, was to pursue contacts with North Korea “with patience and in a bold manner”. America welcomed the news.

Until this week's announcement, patience had seemed to be wearing thin all round. North Korea had resented the Bush administration's refusal to pick up immediately where the Clinton team had left off early last year, and negotiate a deal to buy off its missile sales. In recent months Mr Bush's officials have offered repeatedly to talk to North Korea anytime, anywhere, but want to put on the agenda not just missile issues (North Korea's self-imposed testing moratorium expires next year), but the North's nuclear activities and its conventional forces too. North Korea has so far turned this down flat, making it hard for South Korea's Mr Kim to press ahead with his agenda of family reunions and economic contacts. Mr Bush even asked China's president, Jiang Zemin, on his swing through Asia last month to pass the message to North Korea that America's offer of talks was a serious one.

But North Korea had been further incensed in January when Mr Bush lumped it together with Iran and Iraq in his now infamous “axis of evil”. And it was apoplectic earlier this month when America's leaked nuclear-posture review listed it among seven countries (ranging from Russia and China to Syria and Iraq) that posed the sort of threat that meant America would not rule out using its own nuclear weapons one day. Should America's “nuclear fanatics” impose war, North Korea fulminated, it “would mean their ruin in nuclear disaster”—the closest North Korea has come to suggesting in public that, as many suspect, it does have a few nuclear weapons of its own.

That was the grim background to the Bush administration's announcement last week that it could no longer “certify” that North Korea was honouring a 1994 agreement, which froze its plutonium production in return for two less proliferation-prone, western-designed nuclear reactors, along with supplies of heavy fuel oil until they are built. That is not quite the same as accusing North Korea of actually breaking the agreement. In any case, waivers are to be issued, allowing oil worth $95m to go to North Korea this year, and America continues to provide food aid.

For all that, the underlying message was clear: without timely progress on allowing international inspectors in to establish just how much plutonium North Korea produced in its now mothballed home-built reactors—a process that will take at least three to four years and must be completed before the nuclear components of the new reactors can be delivered—the 1994 agreement will be further delayed and could even unravel.

So does President Kim's promise of new boldness in his contacts with North Korea mean breaking ranks with America, his closest ally? Hopefully not, since if both sides have learned anything in their dealings with North Korea, it is that neither can squeeze better behaviour out of Kim Jong Il without the help of the other.

For some time now South Korea and America have been discussing military confidence-building measures that could help reduce tension at the inter-Korean border as a reassuring prelude to a broader security

dialogue with the North. Next month America, South Korea and Japan will meet to co-ordinate their policies for the months ahead. An offer of improved diplomatic and economic ties in return for progress in the issues that concern all of them would be a bold stroke. Might Mr Lim be carrying such a proposal? And if so, will North Korea take it up?

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Sri Lanka

The peace of desperation

Mar 28th 2002
From The Economist print edition

The ceasefire holds after three months

Reuters

Get article background

Wickremesinghe glimpses peace

IT WAS exactly the victory Sri Lanka's new prime minister, Ranil Wickremesinghe, was hoping for. His United National Party (UNP) crushed the opposition People's Alliance in local elections on March 20th, the first to be held since the party took over the government in December. This victory was even sweeter than the first: it was effectively a referendum on Mr Wickremesinghe's controversial moves to end the long-running civil war with Tiger Tamil separatists.

A ceasefire between the Tigers and government forces, brokered by Norway three months ago, is essentially holding. In another promising development, the London-based chief negotiator of the Tigers, Anton Balasingham, has arrived in Sri Lanka to move things along. He flew direct to Vanni, the Tigers' headquarters in the north of the island, from the Maldives, by-passing Sri Lanka's capital Colombo.

Mr Balasingham will be discussing with Velupillai Prabhakaran, the Tigers' leader, where best to hold the proposed peace talks. Erik Solheim, the Norwegians' peace envoy, was reported to have met Mr Prabhakaran this week, and presumably also brought up the question of the venue. The Tigers say it needs to be somewhere neutral, and where Mr Balasingham, who has a kidney problem, would have access to medical attention. The Tigers' first suggestion, India, was studiously ignored by the regional superpower, which believes Mr Prabhakaran was involved in the murder of Rajiv Gandhi, a former Indian prime minister, and wants him put on trial. The Maldives or Thailand are other possibilities. The government says they could start in May.

There are other hopeful signs, including a plan to reopen the A9, the main road between the north of the country, where the Tigers are most active, and the government-controlled south. The Tigers seem to have put aside their worries that the government would use the road to send military reinforcements to 30,000 troops in Jaffna, which the army recaptured from the Tigers, rather than having to depend on tenuous air and sea routes.

The talks themselves are likely to start with the Tigers' demand for a separate “homeland” for Tamils on the island, and the government's determination to reject anything that looks like a separate state. Neither side has indicated how the talks are likely to proceed after the initial statements. Sri Lanka's executive president, Chandrika Kumaratunga, abandoned earlier talks with the Tigers because of their obduracy. Although the local polls have demonstrated Sri Lankans' longing for peace after years of civil war, Mr Wickremesinghe will be aware that the Sinhalese majority on the island remain suspicious of Tamil ambitions.

The Tigers say that Mr Prabhakaran will host a press conference in April. For the first time in ten years, the elusive leader will field questions from journalists about the peace process and the “liberation struggle” to which he has devoted most of his life. Convincing the world of the legitimacy of the Tamil struggle will be hard enough, but convincing the Sinhalese people will be far harder.

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Afghanistan

Natural killers

Mar 28th 2002
From The Economist print edition

Now earthquakes add to the suffering

AS IF Afghanistan was not in enough trouble already. On March 25th and 26th, a series of powerful earthquakes shook the north of the country, killing at least 2,000 people, injuring another 4,000 and leaving 30,000 homeless, according to government officials. The town of Nahrin, 160km (100 miles) north of Kabul, has been flattened, together with nearby villages. The shocks could be felt as far away as Pakistan.

The Hindu Kush mountains are prone to earthquakes, though these latest are unusually severe. In early March, about 100 people were killed in a landslide in neighbouring Samangan province. In 1998, two earthquakes killed 8,500 and caused massive destruction in Takhar and Badakhshan provinces.

The UN, aid agencies and the Red Cross are sending staff to the area from Mazar-i-Sharif with tents, food and blankets. But bad roads, rugged terrain and the aftershocks of the quakes hampered initial relief efforts. Hamid Karzai, the itinerant leader of Afghanistan's interim administration, cancelled a scheduled visit to Turkey. His government has also asked the British-led International Security Assistance Force, based in Kabul, to send reconnaissance teams to the stricken area and assess the damage.

Afghans had their hands full dealing with the ravages of men, before being visited by this natural disaster. Large-scale international relief operations are already under way to care for the millions of Afghans who have fled their homes since the recent fighting or, even at home, cannot find enough food to eat. Yet another postponement of the scheduled return of Mohammed Zahir Shah, the 87-year-old exiled king, has added to the dark national mood. He is, by all accounts, much loved. But his former realm is not yet deemed safe for him.

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Myanmar

The black hole of Yangon

Mar 28th 2002 | YANGON
From The Economist print edition

Power cuts compound a general malaise

SKYROCKETING prices, collapsing public services and power cuts that regularly engulf Yangon in darkness for up to 20 hours at a time are the daily lot of many residents in the capital of Myanmar. In other developing countries, this would lead to mass demonstrations, even serious unrest. But in Myanmar—formerly called Burma—it only deepens a mood of dark pessimism, its weary citizens being all too aware of the bloody result of the last peaceful protests, in 1988. The movement was crushed by the Myanmarese army, leaving perhaps 3,000 dead.

Unsurprisingly, foreign investors are pulling out. The latest casualty is Myanmar's fledgling underwear sector. Triumph, a German-owned lingerie firm, recently announced that all its Myanmar operations will cease, partly in response to the slogans of the Clean Clothes Campaign, which demanded that Triumph stick to supporting breasts, not dictators.

The foreign investment and tourism that the government so badly needs to shore up its scarce foreign reserves are being scared off not only by such protests but also by the difficulties of doing business, uncertainties about the future, and a European Union ban on development aid to the military regime. Inflation is running at over 50%, and the Myanmarese kyat is tumbling against the dollar. The power cuts are just one more reason to pull out.

Myanmar-watchers blame the cuts on the incompetence of the State Peace and Development Council, as the junta calls itself these days. The generals have done nothing to tap the country's substantial offshore natural-gas reserves while its existing onshore supplies shrink. A recent foreign offer to build a new pipeline was rebuffed as too expensive. Weeks later, however, the regime spent $40m as a down-payment on ten Russian MiG-29 fighters, which will cost $130m in all. Myanmar is also thought to have spent more than $1 billion on arms from China in the last decade.

An energy-rich country, Myanmar is now suffering the worst fuel shortage in the region. Its own citizens are starved of electricity, but the regime sells a steady stream of natural gas to neighbouring Thailand. Yet this export success has not saved the public finances. Current reserves are estimated at no more than $240m—enough to cover only the next six weeks of imports. A shortage of foreign exchange has forced the black-market price of gasoline up by 600% in less than a year.

The secretiveness of the generals certainly does not help them run the country well. Since 1997, they have refrained from publishing a formal budget, and the figures they do produce are lies. A Myanmar minister attending a development conference last year claimed that his country was steaming along with a 13.6% growth rate and only 0.5% inflation, much to the mirth of economists.

One Yangon-based ambassador calls Myanmar an information black hole, where the Internet is seen as a tool of subversion which ordinary people—including most doctors, journalists and students—are not permitted to use. Very few statistics on health, education or much else have been published since 1997. Foreign guesstimates, though, are shocking. The junta is thought to spend more than 40% of its budget on defence and arms procurement. Since Myanmar has no external enemies, most of these weapons are for use against internal ones. In contrast, less than 1% of GDP is devoted to health and education combined. The World Health Organisation ranks the efficacy of the health system in Myanmar at 190 out of 191 nations. A prime example of that old oxymoron, military intelligence?

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Coping with the intifada

Can't live with it, must live with it

Mar 28th 2002 | JERUSALEM
From The Economist print edition

AP

As Arab leaders opened their Beirut summit, the atmosphere in Israel and the territories was a mix of defiance and despair. Two reports, the first from Jerusalem, the second from Dehaisha Camp, Bethlehem

Get article background

ON MARCH 21st, at a coffee-shop in Jerusalem, the unmistakable thud of a bomb is heard. The customers flinch. They have cause to be nervous: only a fortnight before, a suicide-bomber walked into this café, but was overpowered by waiters before he could blow himself up. Now there is an iron gate and a burly guard with a metal-detector. The radio broadcasts live coverage from the bomb scene a mile away. But the waiters switch instead to music, and talk of salad dressings and cake toppings. Some customers try to telephone loved ones, but others eagerly fall in with the waiters' charade. “What's the point of phoning my family and friends?” one young woman reasons. “Even if they're all okay this time, they might be hit next time. For that matter, so might I.”

Israel has now suffered 18 months of random violence that has killed close to 400 citizens, injured thousands, and distressed millions. But human beings have a near-infinite capacity for adjustment. “It's like cancer,” explains one doctor who, as the head of an emergency ward at a large general hospital, has seen his share of horror lately. “Cancer is often not a terminal illness. You learn to live with it.”

Most Israelis purport to hold the opposite view. After each bombing or shooting, everyone seems to concur that “We can't go on like this much longer.” But do they mean it? There is much talk of emigration, especially among young people who can easily sell their skills abroad. Queues outside consulates are growing. There is talk, too, of refusing to do army reserve duty. Some 350 junior officers and NCOs have signed a public pledge to go to prison rather than perform it. But there has been no mass rush for the airports, nor indeed for the military jails. Some young men have even volunteered for extra military service to make up for the refuseniks.

The *intifada* has brought fear into Israelis' prosperous lives. And, perhaps unsurprisingly in such an argumentative society, they cannot agree what to do about it. Some bluster that the army should sweep into the West Bank and Gaza, crushing all resistance, occupying every hamlet, combing every home, school and factory for weapons and explosives. But what then? One far-left politician advocates marching right out again, and ceding all the territory, with Jerusalem, for a Palestinian state, having “shown them” that Israel remains strong. On the far right—and recently on the not-so-far-right, too—there is talk of the “transfer” (ie, expulsion) of Palestinians. The notion is often given spurious respectability by reference to

historical shifts of population, such as between India and Pakistan at the time of partition.

With so many educated Israelis talking, almost glibly, of previously unmentionable ideas such as emigration, “transfer”, and refusal to serve, an outsider might conclude that Israeli society is breaking down. But it is more complex than that. The extremist chatter can best be seen as desperate efforts by caring people to influence the government of Ariel Sharon, which—everyone agrees—seems not to know what to do next. It is a sign of confusion, not of impending collapse.

To calm their fears, Israelis tried at first to create imaginary “safe zones”. Markets, they agreed, were dangerous; malls were safe. Taking buses was dangerous; walking in the street was safe. Jerusalem was dangerous; Tel Aviv was safe. But on March 5th, a shooting attack on a Tel Aviv restaurant shattered that last illusion, and convinced many Israelis that nowhere was now safe. If Palestinian terrorists were to provoke an even bigger Israeli military backlash, it would, for a while at least, enjoy the support of most Israelis. Certainly the outrages in Israeli cities this month dulled the protests that would normally have welled up in liberal circles over the army's excesses in the refugee camps.

Opinion polls show that Israelis are polarised. Many individuals, too, express contradictory opinions. Some want to hit the Palestinians hard, but also favour ridding themselves of the problem by dumping the occupied territories. At the same time, many are impressed, though horrified, by the sacrifices the Palestinians are prepared to make. “I've got to say this, he was a real man,” said one eye-witness, describing a Palestinian gunman who, after shooting down shoppers at will in the town of Kfar Sava on March 17th, walked into a hail of automatic fire, shooting his pistol until he fell.

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The mood in Palestine

Mending walls, but not fences

Mar 28th 2002 | DEHAISHA CAMP, BETHLEHEM
From The Economist print edition

Life in the camps is rough, and even moderate Palestinians are now furious

Get article background

EPA

That soldier could have used the door

OLD MEN sit drinking strong, sugary black coffee, and smoking apple-scented tobacco through water pipes. Egyptian pop music, mixed with pan-Arab anthems from the Nasser era, thumps from rusty transistor radios. Family shops sell cigarettes and Mars bars, while children climb on bricks of locally quarried stone, gleaming golden in the sunlight. Life in the occupied territories is never normal, but somehow or other, despite armed combat and a throttling blockade, people cope, even in Dehaisha.

Earlier this month, 1,800 Israeli soldiers, backed by tanks and helicopters, invaded this refugee camp outside Bethlehem, where 10,000 displaced Palestinians are crammed into half a square kilometre of dusty, sloping alleys. The aim, according to Shaul Mofaz, Israel's chief of staff, was to "make the Palestinians understand they will achieve nothing by violence." But a visit to Dehaisha a week or so after the soldiers withdrew suggests that this message has not been heard.

The camp is abuzz with activity. Workmen are re-laying water pipes gouged up by Israeli bulldozers. Children play with spent cartridges and run to school over walls flattened by tanks. During the siege, which lasted three days and left three dead, all male camp-dwellers aged 15 to 45 were handcuffed, marched off, and interrogated in a nearby quarry. All but seven have been released. The mood in the camp is now one of what the Palestinians call *sumud*, a mixture of defiance and steadfastness. The refugees are used to pain. Most of their families fled Israel half a century ago. Their old villages are as little as half an hour's drive away; before the blockade, they were able occasionally to eat nostalgic picnics there. Despite so many years of disappointment, many believe that the current bloodletting is the "last battle"; that if they resist a little longer, the Israelis will give up and go away.

This belief leads some to join the *intifada*, and others to resist passively. While their menfolk were tied up, the women of Dehaisha met Israeli questions with silence. One says that when a soldier searching for weapons tore up one of her cushions, she tore up another in front of him.

Everyone has a tale: two days into the incursion, Amjad's father died. A curfew was in force, so he sought the army's permission to let an ambulance ferry the body to a cemetery. The army refused. The day before, a local doctor had received clearance to drive during curfew to pick up medicines for his hospital, but was killed by a tank shell 200 metres into the journey. Rather than risk a similar fate, Amjad wrapped his father in a shawl and buried him in his garden. Twenty friends and relatives broke curfew to join the funeral procession. "It was long enough to observe the Islamic customs," he says, "but short enough to dodge the helicopters."

Rarely have Palestinians been so united. Even moderates express admiration for suicide bombers. Yusuf, for example, is fluent in Hebrew, and believes that "peace is possible" between Israelis and Palestinians. A refugee, he says his right of return to what was once his village in Israel is "not feasible". But he supports the "martyrs". "They are the nails in Israel's shoes," he says. He was once a manager in an Israeli hotel, and earned enough to build two extra storeys atop his breeze-block bungalow. But he lost his job when the blockade began and he could no longer get to work. And during the recent incursion, a bunch of soldiers billeted themselves in his home, forcing his 26 relatives to squeeze into one room, which they were only allowed to leave through the window. To avoid snipers, the soldiers bashed holes in

Yusuf's walls so they could enter the houses next door without stepping outside. Now they have gone, Yusuf stands outside with his brothers, mixing cement to repair the damage, and applauding the fact that Israelis can no longer walk without fear of treading on nails.

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Aid to poor countries

Knowledge is power

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A popular little book that saves poor children's lives

WORLD leaders meeting in Monterrey, Mexico last week to discuss effective ways to direct aid to poor countries spoke mostly about big projects and the disbursal of tens of billions of dollars. They would have done well to spend a few minutes considering one small effort which seems to be paying big dividends. This month the United Nations Children's Fund (UNICEF) published the third edition of “Facts for Life”, a basic health handbook aimed at poor people, which is probably one of the best-read books in the world. Since its first edition in 1989, more than 15m copies have been printed and distributed in some 215 different languages.

But these numbers do not convey the book's reach. Many of those copies, after being delivered to poor villages by health or aid workers, have been thumbed by many readers. And material from “Facts for Life” has been used in radio and television programmes, newspaper and magazine supplements, distributed as pamphlets and radio cassettes, incorporated into school textbooks and adapted for comic strips, soap operas and theatre groups. In Benin the book has been translated into seven local languages and used as a training manual for nurses. In Guinea, it has been used in literacy programmes for women. In Myanmar, the Young Men's Buddhist Association has required students to learn sections of the book by rote.

Both the cost and the effectiveness of “Facts of Life” are impossible to measure exactly because of the variety of ways the book, and the material it contains, have been disseminated. But the sums involved, when compared with the prestige projects which have consumed so much foreign aid, are paltry. The audience must be in the tens of millions. Of course the book is no substitute for the medicines and basic equipment so desperately needed in many countries. But for the world's poorest, who have so few other ways of finding things out, the book's tips can be life-saving.

Each year nearly 11m children die from easily preventable causes before reaching their fifth birthdays. Ignorance is often the cause. Many parents, for example, do not know that breast milk is the only nourishment an infant needs in the first six months. Some 1.5m children might be saved each year if they were not also given polluted water. Many people believe that drinking liquids makes diarrhoea worse, when someone suffering from it should actually drink as much liquid as possible. It is safe to immunise a child who has a minor illness or disability, or who is malnourished. Many parents, and even health workers, do not know this. The symptoms of pneumonia are often overlooked, with fatal results. Staunching a cut with mud, a traditional remedy, often causes infections. Two-thirds of students in their last year of primary school in Botswana, according to one survey, thought they could tell if someone was infected with HIV simply by looking at her.

“Facts of Life” has succeeded because UNICEF has made it a collaborative effort. Seven other big aid institutions helped in the publication of the latest edition. Many local-language versions have been adapted, published or paid for by poor-country governments, local charities and religious groups, in addition to international donors. In some countries even banks and businesses have chipped in. The book itself is designed with input from poor people themselves, to make sure it answers their most urgent questions. Not all aid can be delivered this way. But perhaps more of it should be.

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Qat

High and dry

Mar 28th 2002 | SANAA
From The Economist print edition

Why Yemen is running out of water

Get article background

IF YOU want something done in Yemen, do it in the morning. Yemeni offices tend to be deserted after 2pm, as workers retire to chew the amphetamine-loaded leaves of a shrub called qat (pronounced “chat”). Most adult men indulge, and enjoy it so much that they use the same Arabic word for qat-chomping as Moroccans use for their monarchy. A rare non-chewing Yemeni moans that his countrymen are turning into cattle. But the worst thing about qat is not its effect on chewers, but the way it is sucking Yemeni soil dry.

Yemen devotes a third of its water supply, probably more, to cultivating the weed. Wells are falling by two metres a year, and around the capital, Sanaa, by five metres a year. According to the World Bank, Sanaa is the only Arab capital likely to run dry within a decade. Yemen's new irrigation minister struggles to convince his superiors of the problem. Three years ago, President Ali Abdullah Saleh proclaimed that he was giving up qat, but the armed forces spat out an order to follow suit. Yemeni radio recently began urging Yemenis to use contraception to limit the size of their families, but tackling qat remains taboo.

Some Yemenis argue that qat has economic benefits, in that it gives rural folk a means of making a living. Others tout its benefits as a stimulant: students chew before exams to help them concentrate, and businessmen seal deals at afternoon jaw-jaws.

Any effort to discourage qat-munching might stir memories of the country's authoritarian past. Before 1990, when southern Yemen was ruled by puritanical Marxists, qat was banned except at weekends, and desperate chewers had to apply for visas for day-trips across the border into northern Yemen. Today, a more laisser-faire atmosphere prevails. Street children in Aden lope through the souks scooping up fallen leaves. (Dealers like to hook them young.) And cash-hungry farmers plant qat instead of wheat.

For how much longer? “Groundwater is being mined at such a rate that parts of the rural economy could disappear within a generation,” says Christopher Ward of the World Bank. Biblical squabbles over wells are now common. Nine people were killed in a recent scrap near the central city of Ibb, and eight more died in February when people fighting over water in Sadah, in the north, started using heavy artillery. With the country's population of 20m expected to double in 20 years, the water wars are likely to escalate.

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Spying in South Africa

Thabo's watching

Mar 28th 2002 | JOHANNESBURG
From The Economist print edition

But who are his enemies?

A SNOOPING system costing 32m rand ($3m) is being installed in South Africa's parliament in order, says the government, to boost security and prevent terrorism. But many members of parliament are worried about their privacy. President Thabo Mbeki likes to keep a watchful eye on potential enemies, both within his own party and outside it.

South Africa has long had separate domestic, foreign, police and military spy services, as well as a national-intelligence co-ordinating committee. Mr Mbeki recently augmented these with a new "presidential intelligence-support unit", which is supposed to serve him personally, in particular during his many trips abroad. He has also upgraded the job of minister of intelligence—a post he awarded last year to a close ally—to full cabinet rank.

All this gives more power to the executive at a time when legislative oversight is particularly weak. Fazel Randera, the civil servant in charge of monitoring the intelligence services on behalf of parliament, resigned in January after a mere six months in the job. Before he held it, the post had been vacant for five years, and no replacement has yet been named.

Three officials were suspended this month from the provincial parliament of the Western Cape after the discovery of secret wiretaps and micro-transmitters, which could either have been relics of the apartheid era or evidence of more recent eavesdropping. The ruling party, the African National Congress (ANC), accuses the Democratic Alliance, the main opposition, which used to run the Western Cape, of having hired former apartheid spies for unspecified dodgy purposes.

In a crime-ravaged country, privacy has often been sacrificed for security. Mobile-telephone firms are obliged to make their handsets tappable by the police, and city centres bristle with closed-circuit television cameras wired to James Bond-style control centres. Surprisingly for a middle-income country, two of the intelligence agencies operate their own communications satellites.

Some of this reflects South Africa's past. The former white government built a network of informers and secret policemen. But it reflects the ANC's own paranoia, too, which also has roots in history. In the days of exile, many ANC leaders were assassinated, either by the apartheid regime or by rivals in the liberation movement.

The government argues that strong intelligence agencies are needed to fight crime, especially the organised sort. But the president's interest in spookery seems to go beyond a simple wish to keep the streets free of mobsters. Last year Mr Mbeki raised the alarm over an alleged coup plot, hinting that a foreign intelligence agency, perhaps the CIA, wanted to unseat him. In the late 1970s, as it happens, some of his own comrades accused Mr Mbeki of spying for the Americans.

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German immigration law

Here come the lawyers

Mar 28th 2002 | BERLIN
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Reuters

An immigration bill, a constitutional row—and real risks to Germany's economy and its politics

Get article background

A DISPUTED vote in the Bundesrat, allowing a controversial immigration bill to squeak through this, the upper house, where Germany's constituent states are represented, has plunged the country into what the centre-right is gleefully hailing as a “constitutional crisis”. Translation: the first real battle on the way to the general election in September—and one which ensures that the explosive issue of immigration will become a central theme in the campaign.

Chancellor Gerhard Schröder had been at pains to avoid that. He hoped to make the bill, which would allow badly needed skilled foreign workers into the country, one of his show-piece reforms. Now it is in jeopardy. It has the backing of the employers, the trade unions, the churches and most political parties—but not the Christian Democrats and their Bavarian sister party, the Christian Social Union, led by Edmund Stoiber, Mr Schröder's main challenger for the chancellorship.

Humiliatingly outmanoeuvred by Mr Schröder on earlier pension and tax reforms, the centre-right was determined not to give him another victory. The bill has been written and rewritten umpteen times to meet each party's objections. At first, it looked as if a consensus could be reached. But as election fever started to rise, it became clear that the centre-right was not interested in any such thing.

The bill went through the Bundestag, the lower house, on March 1st, with a hefty majority; three former Christian Democratic ministers voted in favour. But the government has no majority in the Bundesrat. Despite the usual wheeling and dealing, on the eve of debate on March 22nd it was still four votes short of the 35 it needed. The joker in the pack was Brandenburg, run by a coalition of Social Democrats and Christian Democrats. Since the two parties could not agree, the state's Bundesrat members would normally have abstained. Not this time. In the oral vote, the state Social Democrats cried out “Yes”, while the leader of their Christian Democratic junior partners pronounced a resounding “No”.

But Germany's constitution allows no split vote: a state must cast all its votes one way, or abstain. So the Bundesrat's chairman, Klaus Wowereit, a Social Democrat, asked Manfred Stolpe, Brandenburg's Social Democratic premier, to clarify his state's position. He reaffirmed its “yes”. His Christian Democratic partner, Jörg Schönbohm, a possible interior minister in a future Stoiber government, muttered, “You know my position, Mr Chairman.” In what later became clear as a carefully staged drama, Mr Wowereit

announced that Brandenburg had voted in favour.

Uproar ensued. Mr Wowereit asked again. Again Mr Stolpe said yes; Mr Schönbohm said nothing. Amidst angry cries of “unbelievable!”, “scandal!”, “violation of the constitution!”, Mr Wowereit proceeded to count Brandenburg's four votes for the bill. It now awaits the signature of Germany's president, Johannes Rau, also a Social Democrat, before becoming law. If he does sign, the centre-right has said it will appeal to the Constitutional Court.

And there what reads like a trivial parliamentary squabble becomes serious indeed. The bill, in many eyes, is one of major importance: for all its 4m unemployed, Germany is short of skills. But the constitution is important too. And so are politics. If Mr Rau refuses to sign, he will deliver a severe blow to Mr Schröder, and his currently shaky chances of re-election.

Mr Rau has indicated that he will take his time to decide, possibly even waiting until after the election. Constitutional experts hold differing views. There is a precedent: in 1949, North Rhine-Westphalia's members cast split votes. But the state's premier then said he was voting the entire state one way. He being also the Bundesrat's chairman, this was not contested, and all was well. So why not in Brandenburg's case? After all, its state constitution clearly designates its premier as its official representative in all “external affairs”, and his “yes” was not contested at the third time of asking. True, but if it is accepted that Mr Stolpe's vote was valid, the way will be open for every other state premier heading a coalition simply to override his partners—and ten of the 16 states today are run by coalitions. This arcane dispute, some fear, could well end in far-from-arcane political chaos, in the state capitals and the Bundesrat alike.

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EU fisheries policy

Too much vigour in Vigo

Mar 28th 2002 | VIGO
From The Economist print edition

Spain's fishing fleet is the EU's biggest. Too big for the fish—or the EU

IT'S 7am and Vigo's indoor fish market is buzzing. As porters haul around crates of the latest catches, auctioneers with megaphones shout out the prices. Arranged across the floor of a hall several hundred metres long are fish from distant seas: Norwegian salmon; mid-Atlantic cod; hake from the coasts of Argentina; shark being inspected by some buyers from Asia.

Vigo, in Galicia, Spain's north-western province, is the largest fishing port in Europe, and its worldwide haul is a tribute to the energy of the Spanish fleet. But it is also an indication of something more disturbing. Upstairs in his office, an official of the Vigo port authority explains that “we started noticing about ten years ago that our local waters were yielding fewer and fewer fish. That's why our boats now have to go to fish off places like Mauritania and Argentina.” And would he like to give his name to a visiting journalist? No chance.

The sensitivity of people in the trade in Vigo is entirely understandable. Fishermen in Spain—and the rest of the European Union—are bracing themselves for EU proposals due in April that are expected to suggest cuts of up to 40% in the EU's fishing fleet. A recent European Commission paper says bluntly that “if current trends continue, many stocks will collapse.The available fishing capacity of the Community fleets far exceeds that required to harvest fish in a sustainable manner.”

In Galicia, home to half the Spanish fishing fleet, they do not see things that way. To Enrique Lopez Veiga, the province's fisheries minister, some cuts in the fleet may be necessary, but the sort Brussels has in mind would be “an economic atrocity”. And Vigo's boat-owners, often portrayed in places such as Britain and Canada as rapacious pirates hoovering up fish, complain that Spain has already borne more than its share of cuts. From his leather armchair in a wood-panelled boardroom, Jose Fuertes Gamundi, the head of their association, tells a sorry tale of collapse in the number of its deep-sea trawlers in recent years.

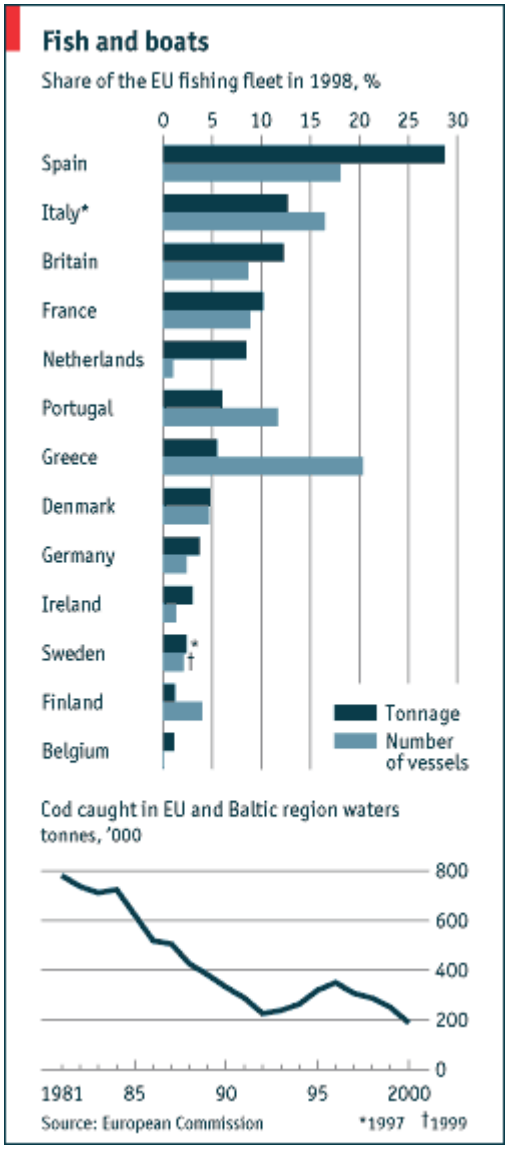
Maybe, but while the numbers have fallen, the new boats are bigger and better. And complaints of EU-imposed cuts in boat numbers and fishing quotas ignore the extent to which EU money has actually built up the Spanish fishing fleet, the largest in the EU by far (see chart). According to the commission, some *euro*1.1 billion ($1 billion) of public money subsidises EU countries' fleets each year. Some comes direct from governments, most from the EU; and over half of that EU money goes to Spain. As one of the EU's poorest regions, Galicia qualifies for structural aid for local industries—and its biggest industry is fishing.

Though the EU's fisheries policy is meant to promote sustainable fishing and reduce the size of the EU fleet, many of its programmes do the reverse. So while the EU has spent hundreds of millions of euros to take some boats off the seas, it has spent even more on aid to renovate others. As the commission itself notes, “the form of aid most favoured by the Community may have intensified the problem of overcapacity.” May have? A commission official privately describes current policies as “completely crazy”, and says that its new proposals will include scrapping all aid for modernising fishing fleets.

Defenders of the fisheries policy argue that at least it supports jobs in poor regions. But even that is increasingly doubtful. As Galicia has become richer, fewer people fancy three-month stints on a deep-sea trawler. Many of the men on Spanish boats now

come from Africa or Latin America, and most of the subsidies go to big industrial-fishing combines, not self-employed fishermen. Mr Lopez Veiga admits that ever fewer locals are taking jobs at sea, though he points out that catches landed at Vigo support thousands of local jobs in processing and distribution.

Entrenched interests in places like Spain, France, Portugal and Greece are likely to frustrate a thorough-going reform of the EU's fisheries policy. Though the commission may urge EU countries to heed scientific advice, experience suggests that all fisheries policy inevitably gets enmeshed in political haggling—and ends in catch quotas that go well beyond what scientists deem prudent. Meanwhile, the EU will continue to export its problems by sending its fleets ever farther away.



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Terrorism in Spain

No end, and not much hope of one

Mar 28th 2002 | BILBAO
From The Economist print edition

ETA is killing again and the politicians don't agree how to start stopping it

AFTER the twin towers, Spaniards hoped that ETA, their own Basque terrorists, might rethink their use of violence. For a time, it looked as if that might be happening. But a series of attacks, including the murder on March 21st of a Socialist town councillor in the region, argues that such hopes were, at least, premature.

The prime minister, Jose Maria Aznar, has often complained of lack of support for his tough stand against ETA, and against some in the Basque Nationalist Party (PNV), which governs the region, whom he accuses of tacitly condoning ETA. He has had more support since September 11th. The police forces fighting ETA, those of France, Madrid and the region, are working better together. Several attacks have been foiled. On March 22nd French police arrested the treasurer of ETA's political arm, Batasuna, laden with cash, on his way from Belgium. On the 25th Spanish police grabbed 11 suspects, weapons and 100 kilos of explosives. The Americans have put 21 ETA names on their “wanted” list. But the political divisions over how to tackle ETA persist.

The Socialist Party, Spain's main opposition, has borne the brunt of recent attacks. Last month, a member of its youth wing had his legs smashed by a car bomb. Another bomb wounded a Socialist councillor and her bodyguard. The party has an anti-terrorist pact with the central government in Madrid. But how exactly to carry it out? The latest murder came two days before the party's Basque branch elected a new leader committed to the pact, but readier than his predecessor to work with the PNV regional government.

Protest marches after ETA attacks have shown an ever angrier public response not just to the violence but to the politicians' squabbles. Mr Aznar insists that ETA can be defeated by tough police and legal action. He wants to outlaw Batasuna, which gets public money as a political party. It has always been subservient to ETA's gunmen. But the plan worries some in the Socialist Party, whose help would be desirable and possibly needed.

The PNV calls the idea anti-democratic. ETA having returned to violence after a 14-month truce, its political wing was battered in last May's regional elections, but still got 7% or so of the vote. The Basque region's premier, Juan Jose Ibarretxe, last month drew all the region's parties, except Batasuna, around the table for the first time in four years. They agreed to freeze Batasuna out of local and regional government, by barring it from coalitions until it denounced violence; act like democrats, he is saying, and we'll treat you that way.

Mr Aznar is wary. He suspects Mr Ibarretxe of trying to buy an ETA truce—at a price, just as it bought the earlier one. In return for peace, he argues, the PNV swung toward separatism; but peace is everyone's right, not something to be paid for. Mr Ibarretxe says any political formula to halt ETA's killing will differ from those tried before; to Mr Aznar the already wide devolution of power to the region means “there is no political problem”.

For ordinary Basques, the bickering is dispiriting. “They seem more concerned to further their party interests than solve our problems,” laments a businessman. “That means people are starting to lose faith in the political system as a whole.”

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Italian labour law and politics

The trade unions hit back

Mar 28th 2002 | ROME
From The Economist print edition

A giant demo proves the unions are not the spent force some supposed

AP

Defending an article of faith

IT WAS a giant demonstration: maybe a million trade-unionists assembled in—orderly and peaceful—protest against the government's plan to alter a piece of labour law. Rome's Circo Massimo seemed a sea of waving red banners, and the CGIL, the left-most of Italy's three trade-union confederations, which had organised the demo, could be well content. The political results have been big as well: foolish reactions from one or two ministers, a consequent blazing row between unions and government, and intervention by the national president to calm things down.

The bit of law at issue is Article 18 of the "workers' statute" dating from the 1970s. It requires employers to reinstate (not just compensate) workers whose dismissal is ruled unjust by the courts. Italian law goes further than any other in Europe in this respect. Article 18 discourages firms from hiring, deters foreign firms from investing in Italy and is a deadweight on business, especially in the country's poor southern regions, argues the Confindustria, the employers' association. The government of Silvio Berlusconi is determined to alter it; all three union confederations, the centrist CISL and UIL as much as the CGIL, are equally determined to see it retained.

On their own, the none-too-drastic alterations in the law that Mr Berlusconi seeks look a slim reason for the huge rally of the CGIL's troops. Naturally the unions dislike them, but they would not deprive long-term employees of any sizeable company of Article 18's protection. But Sergio Cofferati, the CGIL's charismatic leader, knows his rank-and-file have other serious worries; and, above all, he needed to show that organised labour was still a force.

The more so after the murder on March 19th of Marco Biagi, a professor of labour law who had been advising the government. Some ministers had seized on this to depict the unions as soft on extremism, suggesting that unions equal communists equal the Red Brigade terrorists of 25 years ago. The CGIL's rally was against political violence as well as any change to Article 18. One demonstrator was the widow of Massimo D'Antona, another government adviser on labour law murdered in 1999.

The attempt to demonise the CGIL and bully it into cancelling its demo patently misfired. Undeterred, ministerial name-calling went on. A junior labour minister said extremists within the unions had facilitated Mr Biagi's murder. Umberto Bossi, he of the Northern League and unbridled tongue, said "the left" had "killed him, then taken advantage of his death." The union confederations—all three, despite earlier efforts to divide them—reacted fiercely, calling off a meeting with Mr Berlusconi due on Tuesday to discuss his labour-law plans. And, though the other two had not liked the CGIL's seizing of the spotlight, the three confederations, already planning joint national protests on March 27th against political violence, fixed on April 16th for a long-planned general strike in defence of Article 18.

All this was bad news for Mr Berlusconi. A fragmented and ineffectual opposition has so far given his government a fairly easy ride. But the unions manifestly are far from a busted flush, and the CGIL's rally has reminded the whole left that unity is indeed strength. In Parma the next day, Francesco Rutelli, the leader of the opposition, tried to teach his troops that lesson—albeit with only partial success.

There was more to come. On Tuesday President Carlo Azeglio Ciampi, ready yet again to intervene in politics, called publicly for "harmony and dialogue" among the institutions of society. It was not the unions he was aiming at. Mr Berlusconi and his government are unlikely to be thrown much off course,

let alone out of office, by union demos. But he may have to adopt a less confrontational approach.

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Switzerland in the second world war

Nostra culpa

Mar 28th 2002 | GENEVA
From The Economist print edition

A commission reports on the wartime record—too unkindly, say some Swiss

DURING the second world war, Switzerland was a neutral haven stuck in the middle of Nazi-occupied Europe. Its soldiers, 450,000 reservists, were mobilised to deter any invasion, threatening to fight from their Alpine mountain redoubt if need be. The Swiss endured some economic hardship, but welcomed refugees and escaping prisoners-of-war, and eased the suffering of others through their good offices as neutrals and the humane work of the—then all-Swiss—International Committee of the Red Cross.

So, broadly, the Swiss have believed. The whiter-than-white story has been shaken over the decades, but stayed fairly solid in the minds of most of them. But now, after more than five years and 25 volumes of research, a massive final report by an independent commission of experts has restored truer shades of grey, and even some of black, to the tale of Switzerland's relations with Nazi Germany.

The commission was set up, under foreign pressure, in 1996. The nine international historians, and the economists, legal experts and researchers who assisted them, concluded that some of Switzerland's politicians and businessmen failed their own country on three counts:

• They contributed to the Holocaust by turning back about 20,000 refugees, at times discriminating against Jews. In August 1942 Switzerland closed its borders for some months to those fleeing (as a police circular put it) “only because of their race, Jews for example”. By then, not for the Swiss in general, but for the authorities concerned, “there was little doubt” of the fate awaiting Jews; the information was “at their disposal”—plenty of it, in fact.

• They manipulated neutrality and helped Hitler's war machine by going further than needed in trade and financial support.

• After the war, banks and art galleries were negligent about restoring property. Decades of pressure from Hitler's victims or their heirs seeking to recover their assets bore real fruit only in the late 1990s, with the help of Jewish groups, lawyers and the American government.

Yet the myth was not only myth, the report says. Switzerland was, after all, surrounded and at real risk; its leaders had to make difficult choices. It did shelter up to 300,000 foreigners, albeit mainly soldiers. Large segments of the population helped those in need, even illegally. Parliament lambasted official policy for pro-German bias. Foreign ministries of the Allies even welcomed things the Swiss were doing.

But Switzerland plainly did have its share of shameless profiteers. One of the new studies released last week focused on its weapons makers. By one means or another, they supplied the Allies; they paid huge bribes to get also into the German market. They undermined their own country's defence, exposed it to blackmail, and defied neutrality, the historians maintain.

Criticism of Switzerland's wartime refugee policy is not new. It has gradually come under fire since 1957. In 1995, the government unexpectedly apologised for past “errors”, after some largely unpublicised research, requested by Israel's Holocaust museum, Yad Vashem, into Swiss files relating to would-be refugees.

As to property, the government ordered a search for dormant accounts and in 1997 set up a SFr300m (then $210m) Holocaust compensation fund; 9,000 claims from around the world are still being processed. Swiss banks were pushed, after much resistance, into a $1.25 billion court settlement in the United States.

The historians, who also carried out research widely in Europe and the United States, have called for the research to continue in other countries. Had the Swiss not unravelled their own history, some heirs of Holocaust victims would still be struggling to recover assets seized in Britain as belonging to “enemy aliens”.

Some Swiss resent the way the commission has emphasised the darker side of the story. They point out, fairly, as the report does, that Switzerland was not alone. Many countries blocked or limited entry to refugees before 1939. Firms from many neutral countries traded with Nazi Germany. The United States, pro-Allied but officially neutral until December 1941, figures in both lists, and long before this week pressure on Swiss banks from the United States—not least from vote-seeking New York politicians—had aroused irritation; even, at the extreme, feelings that left Swiss Jews not unreasonably worried.

On the day the report appeared, a “solidarity foundation” for the world's needy, to be fuelled by selling some 450 tonnes of Swiss gold reserves, was approved by parliament. It faces a referendum later this year, and strong opposition from those who feel Switzerland has already paid too much to the outside world.

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Ukraine's politicians

If you think, don't drive

Mar 28th 2002 | KIEV
From The Economist print edition

Ukraine's top politicians have a lot of car crashes. Sinister?

AS THE head of Ukraine's biggest arms-exporting company, Valery Malev knew a lot about armoured vehicles. Had he been driving one to work on March 6th, he might have survived, and Ukrainian politicians investigating President Leonid Kuchma's role in the alleged sale of $100m-worth of weapons to Iraq might have learned some awkward secrets. But Mr Malev's journey was cut short—like those of so many other prominent Ukraine politicians—by a car crash. His Audi smashed head-on into a heavy truck and he died without regaining consciousness.

Some Ukrainians are convinced that the car accidents that beset their political elite, especially people opposed to the powers-that-be, are those powers' way of bumping off inconvenient rivals. That is possible, but it is also true that Ukrainian bigwigs' habits of driving at very high speeds on slippery cobbled streets, often against the direction of traffic, and in a country where road manners are fairly rudimentary, are a recipe for disaster.

Mr Malev's secrets may yet come out before this weekend's elections (toward which an opposition coalition had been sputtering, only to hit potholes dug by presidential hangers-on). The head of a parliamentary commission investigating Mr Kuchma's doings, Alexander Zhyr, says he has a recording of Mr Malev discussing the Iraqi arms deal with Mr Kuchma. Mr Kuchma says the accusation is “dog shit”.

Quite a list

Prominent road-accident victims	When	Result
Valery Malev arms-export chief	March 2002, amid a scandal involving the president and arms to Iraq	death
Yulia Timoshenko opposition leader	January 2002, while fighting a travel ban before the general election	injury
Alexander Yemets parliamentarian	January 2001, at the peak of the “Kuchmagate” bugging scandal	death
Yevhen Marchuk former secret-police chief	February 2000, after returning to a powerful position as national security adviser	injury
Boris Marusich head of state second-hand weapons company	April 1999, during a revamp of arms exports	death
Vyacheslav Chornovil ex-dissident	March 1999, while gathering support for a presidential bid	death
Alexander Veselovsky deputy head of central bank	August 1998, during an investigation of dodgy deals with foreigners	death
George Kuzmycz US official dealing with nukes	December 1997, en route to an experimental military facility	death

Source: *The Economist*

Taras Chornovil, an opposition politician whose father, Vyacheslav Chornovil, a top Ukrainian dissident, died in a collision with a truck in 1999, says he is convinced both incidents were staged by the same dirty-tricks team. Police say Mr Malev's death looks like an accident, though they also say they are checking for poison. Mr Malev's passenger, who miraculously survived, has given an account that suggests suicide, with an alert and healthy Mr Malev suddenly and inexplicably steering into the oncoming juggernaut.

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Charlemagne

Ad Melkert, meet Pim Fortuyn

Mar 28th 2002
From The Economist print edition

The old kind of Dutch politics meets a new kind, and doesn't like it. Too bad, that's Europe today

DUTCH politics can never be the same again.The nation united, Catholic with Protestant, against the Spaniards four centuries ago, and has followed that pattern ever since: you (defined by religion, class or whatever, so long as it's not football club) have your interests and your party, we have ours, but we're all Dutch, let's talk and sort things out. The electoral system helps, ensuring endless coalitions. In 1994, the Labour Party, under Wim Kok, formed a ministry with the free-market Liberals, bypassing the Christian Democratic centre; the system of mutual tolerance had reached near-perfection. Then, this March 6th, local-election day, a bomb exploded.

Its name was Pim Fortuyn. He is a colourful, shaven-headed, mid-50s, gay, volatile, assertive ex-professor of sociology, and the party list he headed in Rotterdam took 35% of the vote, kicking Labour into second place with 22%. Opinion polls credit him and his list for the national election on May 15th with near 20%, hard on Labour's heels. He makes much of crime, immigrants and their ("backward") Muslim culture, so he is labelled far-right and has been likened to Mussolini or present-day Austria's Jörg Haider. That is neither fair nor to the point. Mr Fortuyn's speciality is saying aloud, in plain Dutch ("unlike the politicians, with dough in their mouths," says one listener), what many of his fellow-citizens feel; notably, that they are fed up with decisions— on many issues, not just these—taken, with little public input, by consensus of political leaders who equally curb debate inside their own parties. Mr Fortuyn, above all, is a populist.

Sooner or later, his fortunes may fade: his list of candidates is almost devoid of political experience, albeit adorned by the current Miss Netherlands, and it is hard to see any cabinet surviving six months of Mr Fortuyn and his ever-open mouth. But the feelings he speaks for will not go away. With gradations of policy and tone, his like is widespread: think of names like Haider, Le Pen, Bossi, Switzerland's Christoph Blocher, Denmark's Pia Kjaersgaard and more. Europe's conventional parties and politicians will have to live with such people, like it or not.

As to how, Dutch politicians haven't a clue yet; they are still in shock. But the one who plainly will like it least is Ad Melkert, Labour leader since December, when Mr Kok, while retaining the prime-ministership, handed him the party. Mr Melkert, then, had a fair chance—not more, but not less—of succeeding Mr Kok in government too. Few would bet much on that today. His dislike of Mr Fortuyn was plain to see in a television debate late on local-election night.Tired and dishevelled, the main party leaders were joined by Mr Fortuyn, smart-suited and wide awake. Not alone, Mr Melkert, very visibly, could barely stand the sight or sound of him—and Mr Fortuyn wiped the floor with the lot of them. But Mr Melkert's feelings are not just those of ambition suddenly put at risk. It is with real feeling that he accuses Mr Fortuyn of playing "a dangerous game", of advocating a "tough, heartless, Thatcherite society". Businessmen who look forward to a (not impossible) future coalition of Liberals, Christian Democrats and Fortuynists, he says, are "playing with fire."

Feelings are not Mr Melkert's forte. Now 46, he is a lifelong politician—which, in the Dutch system, can mean skill on committees more than the hustings. Keener on party discipline than ideas, precise, calm, tight-lipped, you could take him for the ex-pedagogue, Mr Fortuyn for the old pol. That says something about Dutch politics and its worst of all versions of proportional representation: a single, national list of a party's candidates, all (at least for Labour) picked by headquarters. Unsurprisingly, voters' interests—or prejudices—get overlooked; Daddy knows best.

Rotterdam, and not just Rotterdam

Rotterdam's voters reckon they know better. A Londoner might barely notice what they see as their city's troubles. But among its 600,000 people, 40% are foreign, 30% darkish-skinned as well, mostly Moroccans and Turks, plus Surinamese and West Africans. Nearly all rent their housing (only 25% of the city's homes are owner-occupied); no house-price ladder out of poverty for them. The areas where they are congregated look dirty to the cleanly native Dutch. And, in a city where crime is voters' number-one concern, immigrants and criminality are seen as linked—as too often (but who dares say it?) they are.

Mr Fortuyn's followers say it readily (and rage when a local imam retaliates, comparing gays unfavourably with pigs). They want immigration slowed, then stopped. Yet race is not their issue; alienness is. As in many small European countries, they feel national identity is in danger. Black-skinned but Dutch-speaking Antilleans, no problem; but “these Moroccans” (illegal or not, though the issue is often raised) are another matter. Why? Well, they won't learn Dutch, and quit the classes they should go to. They import their brides, reckoning locally educated Moroccan girls too free-thinking by half—and then won't let them go to classes either. And the Turks? Not so bad, but. So why do we let some schools teach in Arabic or Turkish? And so on.

In short—and it is widely felt today, unlike 20 years ago—integration yes, multiculturalism no. Yet Mr Fortuyn's campaign was not centred on this. Rotterdam has been Labour-run for ever; not very well recently, and Labour has been hurt by an “expenses” scandal. The ex-professor's first lesson was one in populist democracy: vote our city back to its citizens (and let the law give us an elected mayor, not, as now, an appointed one). And who did he want to kick out? For all his followers' growls about “illegals”, not dark-skinned Muslims but Labour councillors; “hippo-potamuses”, as he calls them, who surface at intervals, feed and mouth, but mostly do nothing. Nor was it just Rotterdam's poor whites who agreed; his votes flowed in from all sorts all over the city. And, say observers, even in richer Amsterdam or The Hague, he could have scored 25% or more. It is not just Dutch politicians but most of Europe's who should take note.

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Oxford University

Drooping spires

Mar 28th 2002
From The Economist print edition

PA

Oxford University's place-selling scandal goes deeper than a couple of dodgy dons

Get article background

THE Reverend John Platt, former chaplain of Pembroke College, Oxford, is an expert in ecclesiastical history. So he will know that one of the ways that the medieval clergy made itself unpopular was by selling passports to heaven to nervous sinners. Alas, that didn't stop him conspiring to conjure a place at the educational nirvana of Oxford, in return for a £300,000 ($428,000) donation from the nervous father of a borderline applicant. Unfortunately, the munificent parent turned out to be a journalist on a Sunday newspaper.

This is not the first time that Oxford's admissions procedures have caused a stir—or that its malfeasance has turned out to be not quite what it first appears. A couple of years ago, Gordon Brown, the chancellor of the exchequer, berated an Oxford college for rejecting a well-qualified medical candidate from a state school—unwisely, it turned out, since those it had accepted were just as eligible (indeed, two of them occupy the top two spots in this year's exams). The imaginary Pembroke candidate wouldn't have usurped anybody else's place, and would still have had to muster reasonable exam grades. In any case, the growth in the number of foreign students at Oxford, who bring in more money than domestic ones, is arguably just as mercenary. And many American universities explicitly give preferential treatment to the children of their alumni.

The fact is, though, that in a state-funded system, merit, not money, should be the criterion for selection. The university and the college have said so emphatically, and the wayward fundraisers have resigned. But the episode points up two important problems with modern Oxford: the fact that it is strapped for cash; and the weaknesses of its collegiate system.

That Oxford is losing its pre-eminence both among British universities and internationally is becoming a truism. The evidence for this decline is piecemeal, but cumulatively powerful. Oxford has slipped down the various league tables of British universities, falling behind not only Cambridge, but also the buoyant London colleges, Imperial and University. In the latest official assessment of universities, the history department at Oxford Brookes University—until recently a mere polytechnic—rated higher than that of its ancient neighbour. There is much anecdotal evidence of big brains being drained away to the money pots in American universities.

Money is part of Oxford's problem: even its richer colleges are poor compared with American competitors

Money is certainly part of Oxford's problem. Pembroke College, according to Reverend Platt, is “poor as shit”—although many other British universities would be more grateful for the income of £662,434 that it derived from its endowment last year. But the wealth of even the richer colleges is small compared with that of Harvard and the other top American institutions with which Oxford now competes.

In part, this relative poverty is due to the historical stinginess of British students, who have tended to regard their education as a state-funded right. By contrast, even though Harvard students pay enormous fees ($34,269 this year including room and board, though 70% get some sort of financial aid), they continue to pay up afterwards. Those fees are the other part of the equation: like the other British universities, Oxford has felt squeezed in the last decade, as the amount of money spent by the government per student has gradually declined. The contribution made by students themselves stands at a maximum of £1,075; many in Oxford and other top universities want to be able to charge more.

The other problem—cheaper, but given Oxford's inertia, not necessarily easier to solve—is the college system. Oxford is a federation of self-governing colleges, each run by a community of scholars. The greatest glory of the college system, say its advocates, are the individual tutorials in which students sit at the dons' feet (whereas their American counterparts are, despite the fees, often fobbed off with graduate students). David Palfreyman, bursar of New College and co-author of a book on the collegiate system, argues that the devolved admissions system, in which the colleges pick their intake, creates a bond between teachers and pupils; and that the loyalty of alumni donors is overwhelmingly to their college rather than to the university.

As for the college system, many students would trade tutorials with bored veterans for the attention of an energetic novice

But many students would trade their experiences of tutorials with bored veterans for the attention of an energetic novice. Likewise, the federal system has created multiple and competing bureaucracies, when the whole university should be co-operating on fundraising and other matters. Such as recruitment: new dons currently have to be approved by two masters, the departments and their prospective college. Or admissions: a centralised system would make abuses like Reverend Platt's much less likely. The college system is of course one of the things that makes Oxford Oxford: but if it is to compete with its trans-Atlantic rivals and avoid scandals over access, it needs to evolve.

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Redundant churches

Pints in the pews

Mar 28th 2002
From The Economist print edition

Redundant churches are now being put to some curious uses. It's better than demolishing them, anyway

BINGLEY, a small town in West Yorkshire, is a pleasant but largely unremarkable place. It has just become a bit less remarkable. For a century, two Victorian churches, built to keep the workforce of the textile mills on the straight and narrow, rang out Bingley's status across the Aire Valley. So local hackles rose when one, an important work by the noted architect Norman Shaw, was demolished 25 years ago. And they rose further in 1998, when the town's Methodists voted to knock down the other to make way for a modern chapel and twelve homes.

A pressure group was formed. Its chairman, Ewen Godfrey, called the proposed chapel “microscopic” and “ugly”. Conservation experts weighed in. Matthew Saunders, the secretary of the Ancient Monuments Society, voiced his “despair and exasperation” at the threat to a handsome listed building. The council sided with the congregation, and the wreckers moved in this month. Mr Godfrey may not feel better when he hears that parts of the old church have been saved: the pews are being sold to California, the gargoyles to Australia and the stained glass to Japan.

Bingley is not alone in its loss. No one knows exactly how many churches have been demolished in recent years, but the number runs into the thousands. Many more have been converted into homes, offices and libraries; some have become pubs, bingo halls and clubs. Others, mainly in London, have been chopped in half to pay the bills. In fashionable Notting Hill, the Manhattan Loft Corporation is building 14 flats on top of the Westbourne Green Baptist Church. The penthouse is priced at £1.3m; underground parking spaces cost £30,000. The church will be squeezed in between.

Declining church attendance partly explains the problem. The number of regular Sunday worshippers has fallen by a third over the last two decades, to just over 3.5m. Among those under 30, attendance has fallen by a half. But consolidation among the non-conformist churches, which spent most of the 19th century engaged on a competitive building spree, has had an even bigger effect. At their height, the various Methodist factions controlled about 14,000 chapels. Today, the united Methodists own just over 6,000, and they dispose of around 100 more each year.

Critics accuse the non-conformists of not caring about the fate of their buildings. The Church of England, they say, has done better. But that may be because Anglican churches are protected by elaborate statutory procedures. About 1,600 have been declared redundant since 1969. Of those, 357 have been demolished and 327 are preserved by the Churches Conservation Trust, which is jointly funded by the government and the Church Commissioners.

The non-conformists reply that, unlike the better-endowed Anglicans, the Charities Act requires them to get the best price for their unwanted assets. But they also argue that holiness resides in people, not buildings. Bingley's Methodist church was built to seat 1,300; when it was closed, its congregation had dwindled to 50. To its minister, the structure was a draughty drain on precious resources.

Oliver Cromwell famously used redundant churches as stables for his war-horses. Those whose families have been hatched, matched and dispatched at the local altar decry such pragmatism. But the cost of preserving all surplus churches is prohibitive, and when untended they are easy targets for vandals. A few years ago, a fine early church by Charles Barry, the architect of the Houses of Parliament, was invaded by squatters who chopped up the Georgian joinery for firewood.

Groups such as the Friends of Friendless Churches and the Historic Chapels Trust buy up a few outstanding properties each year, but their resources are

Even committed

limited. Even committed churchophiles agree that, in most cases, the only alternative to demolition is conversion. And they are starting to swallow some ungodly schemes. In Walsall, the ground floor of St Paul's has been turned into a shopping centre; the church is now upstairs. Mr Saunders of the Ancient Monuments Society praises the exterior work, and bravely suggests that visitors might enjoy the “excitement of architectural discord” inside. He commends several pub conversions, too: one, opposite the bus station in Worcester, has kept the monuments, stained glass and pulpit of the former St Nicholas's church.

churchophiles agree that, in most cases, the only alternative to demolition is conversion

St Nicholas's was non-conformist; Dawn Christmas, the head of the redundant churches division of the Church Commissioners, says the Church of England has never knowingly allowed pints to be pulled in its aisles. But the established churches, too, are having to think the unthinkable. In Bristol, a city which has more outstanding ecclesiastical buildings than most thanks to the wealth and guilt of the slave traders, the former Anglican church of St Werburgh is now a climbing centre. And down the road in Portland Square, the Churches Conservation Trust is hoping to install a circus under the elegant plaster ceiling of the Grade I listed St Paul's.

An imposing Georgian pile with eccentric Gothic details, St Paul's sits bang in the middle of the most deprived ward in the city. Arson and vandalism have taken their toll; drug-taking is rife in the church-yard. Catherine Cullis, director of the Trust, hopes the new scheme will help regenerate the area as well as keep the building from harm. Better a church full of clowns than no church at all.

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Refinancing the railways

Bozo's reversal

Mar 28th 2002
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£9 billion will be nothing like enough to get the railways working

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ALL governments make U-turns, but rarely are they as shaming as the manoeuvre performed this week by Stephen Byers, the transport secretary. By buying off Railtrack's angry shareholders with £500m of taxpayers' money, Mr Byers has avoided a messy court case. He has also speeded up the process of getting Railtrack back on the rails. The new “non-dividend” company, Network Rail, which will take over the running of Britain's rail network, is due to start by the end of July.

All of this can be defended on practical grounds. Leaving Railtrack in the hands of a receiver for two years would have done nothing to improve its parlous performance. A court case with disclosure of confidential government documents might have revealed all sorts of unpleasantness.

Politically, though, it does not look good. Less than six months ago, the transport minister declared to cheers from his backbench supporters: “There will be no taxpayers' money made available to support shareholders.” By apparently caving in to investors, Mr Byers has now lost that support. His credibility is now at such a low ebb that few believe that Bozo, as his critics call him, will survive in office for long enough to see his new railway.

Perhaps that is just as well, for Network Rail is a strange creation whose future is, at best, uncertain. It is being floated with a £9 billion bridging loan from a consortium of banks led by Royal Bank of Scotland and Barclays. This will be used to buy out Railtrack's bondholders and pay off its debts. Although this loan is backed by the Strategic Rail Authority (SRA), an arm of government, it is not being treated as part of government spending. The Treasury claims it is merely “a contingent liability” and thus does not count against the PSBR unless it is called on. It is worth remembering, though, that four years ago the Treasury defended its off-balance-sheet guarantee of £3.7 billion of loans to London & Continental Railways by claiming that the risk was “infinitesimal”. The infinitesimal risk has now turned into a taxpayers' liability, according to the Public Accounts Committee, of at least £350m that could rise as high as £1.2 billion.

Network Rail plans to refinance its £9 billion loan over a three-year period by borrowing against the railways' access charges. Since these charges depend on the level of fares, and most fares are strictly controlled, direct government subsidies to the railways will almost certainly have to increase. The full bill for the debacle has yet to be presented to the taxpayer, but it will be considerable. The government has not yet agreed with Network Rail how much working capital it will need to operate the business on a day-to-day basis. It could be as much as £1 billion, and not even the Treasury's new passion for creative accounting will be able to treat this as private spending.

Much larger sums, however, will be needed if the railways are to meet the targets set in the government's ten-year transport plan of a 50% increase in rail passengers and an 80% increase in rail freight. Sir Alastair Morton, the former chairman of the SRA, warned ministers before he resigned last year that there was a huge funding gap. Observers believe this could be as much as £10 billion.

Ministers are hoping that “special purpose vehicles”, under which private companies raise cash and build or upgrade track, will bridge this gap. But railway experts are sceptical, pointing out that only one such deal has been struck—with Chiltern, a train operator. Two more deals, with South Central and South West Trains, are being negotiated. The lack of an asset register, and the uncertain state of the track, make the task of getting these “special purpose vehicles” in place extremely complicated. There is a large number of other issues yet to be resolved, not least how much disruption they will cause to the existing

network while work is in progress. Train operators doubt whether the “special purpose vehicles” will provide the extra investment that the rail network needs. “The funding gap is terrifying”, says an industry insider.

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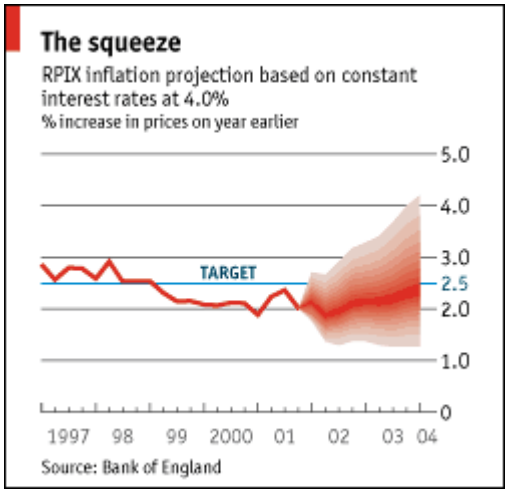
Bank of England

Always looking on the dark side?

Mar 28th 2002
From The Economist print edition

The Bank of England is accused of being too pessimistic



A FEW years ago, when the "Ken and Eddie show" ran the British economy, Diane Abbott, a left-wing Labour MP, accused Eddie George, the governor of the Bank of England, of being "an inflation-nutter". It did him no harm. In 1997, Gordon Brown replaced Kenneth Clarke—the other half of the show—as chancellor and promptly made the Bank independent to set interest rates in order to meet an annual inflation target of 2.5%. Now new research presented to this week's conference of the Royal Economic Society suggests that Ms Abbott may have been right all along.

Since Britain was turfed out of the European exchange-rate mechanism in 1992, the Bank has been charged with producing a quarterly inflation report which forecasts the outlook for inflation, contingent on the prevailing interest rate. In 1996, the Bank introduced the innovation of presenting the forecast as a probability distribution, in order to highlight the risks to the central forecast. These forecasts, which are agreed by the Monetary Policy Committee (MPC), are called "fan" charts because the expected outcomes spread out in bands from the most likely path of inflation to cover 90% of the probability distribution.

It is these fan charts, quickly nicknamed rivers of blood, that Kenneth Wallis, an economist at Warwick University, has put under the microscope. Examining the Bank's record since 1997, he finds that beyond the initial three months of a forecast, they "fan out too quickly; positive inflation shocks have occurred much less frequently than the MPC expected, and on average inflation one year ahead has been overestimated".

The implication is that interest rates could have been lower and the economy could have grown faster. In effect, though Mr Wallis does not say this, the Bank has been acting like an "inflation-nutter" even though it had an express remit to hit the chancellor's target for inflation. The fact that inflation has generally been below 2.5% in the past three years suggests there might be something in the charge.

However, the Bank's average error in over-forecasting of inflation—just 0.2%, a year ahead—is trivial. Furthermore it has a ready defence: the high pound which rose further in the late 1990s and stayed higher than it or anyone else might have expected. If the pound stays stronger than expected, then a forecast is likely to turn out to have been too gloomy about inflation, since import prices will not be pushed up by a depreciating currency.

The more serious issue raised by the analysis is that the charts fan out too much. "They've been telling us there's a lot of uncertainty and the evidence is there's much less," says Mr Wallis. Something has clearly changed. When the Bank was made independent, it seemed highly likely that the governor would have to write a letter to the chancellor, as he is obliged to if inflation misses the target by more than one percentage point either way. But inflation has remained astonishingly stable, so no such letter has been written.

The question is whether this stability is likely to persist. Mr Wallis thinks there has been a "regime shift" and that the outlook for inflation is less uncertain than in the past. The Bank is likely to take a more cautious stance.

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Council housing

Slum clearance, 2002-style

Mar 28th 2002 | GLASGOW
From The Economist print edition

Over a decade, Glasgow's council has invested £1 billion in homes, yet its housing stock is worth minus £200m. No wonder it wants to transfer it to another owner

IN THE 1920s, when people lived in Victorian slums, municipal socialism in the shape of decent and cheap houses looked like a blessing. Now it looks like a disaster. So appalled by a Glasgow council housing scheme was Iain Duncan Smith, the Conservative leader, that he told the Tories on March 24th that they could not afford to ignore the plight of such people, even if they were Labour voters. But doing something about it costs a lot.

In the 1970s, Glasgow's council owned some 180,000 houses, about half of the city's homes. Sales to council tenants, demolition and transfers to housing associations, which are non-profit-making businesses run by tenants, have since reduced the stock to about 84,500 houses.

Many of these dwellings are in a shocking state. A survey in 1998 estimated that about £3 billion needed to be spent on making them wind- and water-tight and bringing heating and kitchens up to modern standards. In the past ten years, the Labour-run council has spent around £1 billion upgrading them, but so many repairs still need doing that the housing stock is reckoned to be worth minus £200m.

Largely as a result of the cost of housing repairs, the council had run up £900m in debt by 2000. The cost of servicing this debt, about 40p in every £1 of rent collected, has pushed rents up to an average of £47.50 per week, the highest in Scotland. In some parts of Glasgow, mortgages for buying similar private houses are cheaper. But the huge repair bill means that the council cannot sell them.

The council's solution is to transfer ownership of all the houses to a single housing association. In England and Wales, there have been 149 such transfers involving about 600,000 houses since 1998. But if the Glasgow deal is approved by a ballot of tenants on April 5th, it will be the biggest single transfer yet.

Why should tenants agree to this? The litter-strewn crumbling houses which so shocked Mr Duncan Smith are in Easterhouse on the east side of Glasgow. This was once a scheme of about 30,000 houses, now reduced to 12,500 by demolition, a fate about to befall the houses viewed by the Tory leader.

About a third of these homes are actually rather smart. They are mostly owned by local tenant-run housing associations. One such, Blairtummock, owns 400 homes and has spent £19m (80% provided by subsidy) building some new houses and modernising all but 100 of the rest. “Our rents are about £700-800 less than council rents,” says Susan Crookston, the chief executive.

The council hopes the prospect of getting this kind of deal will persuade its remaining tenants to shift to the new Glasgow Housing Association (GHA), whose 21-member board will have nine tenant members and six council appointees. It will pay £25m to buy all the houses and promises to spend £1.3 billion, mostly raised from banks, on refurbishment. The repair bill is less than the 1998 estimate because the council has already done some work and the GHA plans to demolish 11,000 of the worst houses.

This does not mean, however, that taxpayers have heard the last of Glasgow. GHA and other housing associations expect to get a £400m grant and a £300m loan over ten years from the Scottish government, and the Treasury will pay off the council's £900m housing debt. Not all the councillors are happy at the prospect of losing power over housing. But most of the doubts have been quelled by what is, in effect, a Treasury bribe.

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Football and television

Blowing the whistle

Mar 28th 2002
From The Economist print edition

Television made football rich. Now, say the footballers, it's wrecking it

Destined for the dole queue

EVEN American television bosses concede that if you want to see the future of digital television, go to Britain. BSkyB, the country's biggest pay-television company, with 5.7m subscribers, was the first operator in the world to switch off its analogue signal altogether. A larger proportion of TV sets in Britain are digital than in any other country. So why, on March 27th, did ITV Digital, another British pay-television business, go into administration?

The story of ITV Digital is not about technology so much as about profligacy. The cost of rights to sports has escalated all over the world. Earlier this year, Rupert Murdoch's NewsCorp wrote off $909m for the TV rights to sports such as the American National Football League.

In Britain, television has lavished money upon football. It has created an elite of clubs at the top of the Premiership, whose sides are studded with celebrity foreign players and managers. Manchester United is the world's richest football club, according to Deloitte & Touche, a consultancy which had been advising Carlton and Granada on the restructuring of ITV Digital's cost base. Seven of the world's richest clubs, including Arsenal, Chelsea and Liverpool, are English—more than any other nationality. Even the lesser clubs of the Football League, which consists of 72 clubs in the three divisions that rank beneath the mighty Premiership, have recently enjoyed more money, thanks to ITV Digital and the sponsorship revenues that have flowed in as a result of TV rights.

What ITV Digital failed to understand was that, while movies and sports remain the drivers of pay-TV, people will not pay to watch second-rate sports games any more than they will pay to watch bad movies. That is why it failed to attract enough subscribers to pay its bills. And when it could not meet the two outstanding payments due as part of its three-year £315m TV rights deal with the Football League, its owners, Carlton and Granada, were forced to put it into administration.

As the TV companies burnt their profits in the boom years by bidding up the price of football rights, so the clubs, big and small, spent their surplus bidding up the price of footballers. Manchester United's wage bill now swallows half the club's revenue, up from 39% merely a year ago.

Some smaller clubs will have to close. Estimates range between five and 36 of the Football League's members. “It's a doomsday scenario,” says Gordon Taylor, head of the Professional Footballers' Association, the players' union.

The share prices of both Carlton and Granada rose on the news that they had blown the whistle. But their troubles will not necessarily be over. They reckon that they will not be liable for the contract with the Football League. The Football League says that they will be. The lawyers should have fun.

Still, once Carlton and Granada are shot of this problem, things should look up. ITV Digital has been an obstacle both to their expected merger and to investment from foreign media companies such as the German giant, Bertelsmann.

Over the past ten years, television turned English football into a first-class entertainment industry. Now it is accused of destroying it.

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Lame rock stars

Between rock and a soft place

Mar 28th 2002
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From blue suede shoes to goody two-shoes

Buck without fizz

WHAT are the only two living things that can survive a nuclear war? Cockroaches and Keith Richards, so the old gag goes. At 58, Mr Richards' rock'n'roll CV is faultless. Four decades of cigarettes, alcohol, energetic fraternising with groupies and enough drug-taking to fell a whole herd of oxen have passed him by like a ray of sunshine. And his arrest record is eyebrow-raisingly impressive. They don't call him the man with five strings and nine lives for nothing.

Mr Richards is the rock'n'roll gold standard; all others are as sounding brass. Witness the unrockerly spectacle presented by Bono, frontman of the Irish stadium act U2, at Isleworth Crown Court earlier this week. Mr Bono was in court voluntarily to defend the reputation of his buddy Peter Buck, a guitarist with REM, a grungy trio from Athens, Georgia. Mr Buck, who is 45, has been accused of running amok in the first-class cabin during a British Airways flight across the pond last year.

“Hello, there,” a waggish Mr Bono greeted Judge John Crocker as he took the stand. Mr Bono more solemnly went on to say that Mr Buck is a devoted family man who, though he enjoys a glass of good red wine as much as the next guy, is wholly incapable of the raucous antics of which he is accused.

From the point of view of Mr Buck's rock-star credibility, the worst-case scenario is that what Mr Bono says is true. It wouldn't be unprecedented. More showbiz types, it seems, are checking themselves in to New Age health spas these days than in to the Betty Ford Centre. Which means that hard-living, old-school rock'n'rollers bear a tremendous weight of responsibility. Mr Richards and his sort carry a flame which, however bright it burned during the gloriously debauched 60s and 70s, has lately started to gutter.

The worst-case scenario, for Mr Buck's rock-star credibility, is that Mr Bono's gentle words are true

Mr Buck, for his part, claims to have no memory of the flight. He has denied being drunk on an aircraft. He has also denied two counts of common assault and one charge of damaging airline crockery. He says he took a sleeping pill with a glass of wine and simply zonked out. So perhaps something can be salvaged from this wreck, after all.

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Bagehot

Kinder, gentler Tories

Mar 28th 2002
From The Economist print edition

The Tories suffer from being seen as nasty and stupid. It's a problem they may be halfway to solving

Get article background

THE news that Julian Fellowes, Oscar-winning scriptwriter of “Gosford Park”, had helped write the speech Iain Duncan Smith gave at the Conservative Party's spring conference will not much surprise those who were there. The occasion lacked a little of the glamour of the Oscar ceremony (favourite dress designer: Marks & Spencer) but there was something familiar about the tone. As Hollywood wept its way through the thought of all the black people it had discriminated against over the years, Mr Duncan Smith spoke of a housing estate where he saw a discarded teddy bear. “A perfectly ordinary sight. Except that it lay next to the paraphernalia of a crack cocaine addict. What hope does that child have?” The movie business is used to this kind of thing, and dabs its eyes obediently. The Tory audience was too stunned to cry. No wonder Lady Thatcher, on the advice of her doctors, had just announced that she would not speak in public again. Unwell? Apoplectic more like.

There's more to this than a new speechwriting talent. The Tories have decided that, like those Hollywood actors, they want to be loved. This, given their history, is a radical change.

Whatever her faults, Lady Thatcher can never be accused of having courted easy popularity. But then she didn't need to. In 1979, most people, even those that didn't vote for her, knew that the country was in a mess and that sorting it out would require a good deal of unpleasantness. When she appeared on television in one of those piercingly blue suits, transfixing some hapless interviewer with her steely glare, we all knew that not only were we in for a good thrashing, but that we jolly well deserved it. The politics of pain were right for the times.

But that had changed well before Mrs Thatcher had left the stage. She would not have lost the leadership otherwise. The increasingly bitter arguments with her senior ministers over Europe were only the proximate cause of what did for her. She was simply hated by too many people for the harshness of her style, epitomised by her famous (albeit misquoted) remark about there being no such thing as society.

Although both her successors, John Major and William Hague, tried hard to soften the edges of Conservatism, they failed. Mr Major, never free from Lady Thatcher's behind-the-scenes sniping, just seemed weak. Mr Hague got off to a promising start, even flirting with a moderate libertarianism as a way to make the party seem less censorious and out of touch. But when, after a year or two, the polls refused to budge, he panicked, resorting increasingly to the language of the embattled little Englander, loathing and fearing not just foreigners but, above all, what his own country had become. It was at last year's spring conference that Mr Hague made his wretched speech about how England was itself becoming a foreign country.

The problem for the Tories is that because New Labour accepted so much of Lady Thatcher's economic agenda, the Conservative Party has been left with her (rather unattractive) social agenda. After the last election, in which the Conservative Party won fewer votes than Michael Foot's Labour Party in 1983 despite there being 2m more people on the electoral register, many senior Tories came to an uncomfortable conclusion. The party's unpopularity could no longer be blamed on the widespread perception of divisions, sleaze and incompetence that wrecked the Major government.

The brutal truth the party's new leadership has perceived is that most educated middle-class voters, especially the young, see the Conservatives as both stupid and nasty—stupid because their social prescriptions seemed simplistic and out of touch with ordinary lives; nasty because they appeared

xenophobic and selfish. As Francis Maude, a former front-bench spokesman, recently pointed out: “The middle classes, business and professional people deserted us in droves...among 25-34-year-olds we are in a poor third place behind the Liberal Democrats.” What turned these people off more than anything, according to one of Mr Duncan Smith's team, was that “we seemed to stand for a kind of nasty, skinhead politics”, an impression, he added, that was unfortunately amplified by Mr Hague's severe haircut and his frenzied attacks on the “metropolitan elite”.

We are all liberals now

This has led David Davis, the party chairman, to a radical conclusion: that it would help Tories' quest for respectability not to have the disproportionately influential metropolitan elite ranged implacably against it. To this end, he and Mr Duncan Smith have been trying hard to make the party sound both more intelligent and (whisper it) liberal.

To that end, the party's leadership has allowed a surprisingly free rein to the shadow home secretary, Oliver Letwin, and to David Willetts, who speaks on work and pensions. They are the party's card-carrying intellectuals; but it is their palpable niceness as much as their brains that appeals to Mr Duncan Smith in his quest to make the party appear “decent”. Without that, the Tories will not even get what Mr Maude calls “permission to be heard”. Hence this week's proclamations of overwhelming concern for the “weak and the vulnerable”. Mr Duncan Smith has recognised correctly that without consciously embracing a more inclusive kind of politics, his party will be left talking only to itself. He is also, in his slightly plodding way, more likely to stick at it than was his terminally cynical predecessor.

Mr Duncan Smith has recognised that without consciously embracing a more inclusive kind of politics, his party will be left talking only to itself

Not being seen as nasty is a necessary condition for being elected to power these days, but it is not sufficient. The Tories now need to work out how not to be seen as stupid, which means figuring out some policies which marry their new, caring identity with a programme which is somehow distinct from Labour's. That is a feat of the imagination which is probably better left to somebody other than Mr Duncan Smith. But decency may turn out to be something that he does quite well.

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German companies

A welcome spell of stormy weather

Mar 28th 2002 | FRANKFURT
From The Economist print edition

One household name goes bankrupt. A second is set to fall into foreign hands. Another two steps forward for corporate Germany

IT IS not hard to become depressed by the state of the German economy. Growth has been sluggish for years, and although business confidence is perking up, economic activity is likely to stay weak for a while yet. This week, despite rising unemployment and inflation of only 1.8%, the country's biggest industrial union, IG Metall, held short “warning strikes” in support of a 6.5% pay claim.

As if this were not gloomy enough, two of the biggest names in German business are on their knees. On March 21st Philipp Holzmann, a construction company that twice helped build the Reichstag, filed for bankruptcy. A few days later, as *The Economist* went to press, Leo Kirch, founder of a debt-laden media empire, was on the verge of giving up control of KirchMedia, his core company, to a group of foreign investors, including Rupert Murdoch. Bankruptcy seemed the only alternative. Hard-hatted Holzmann workers took to the streets; at Mr Kirch's headquarters in Munich, there have been tears in the corridors.

Yet Holzmann's bankruptcy and Kirch's near-collapse are not bad signs for Germany's economy; they are good ones. Every so often, Germany produces a startling piece of evidence that its version of capitalism is not as ossified as its critics believe: take the hostile takeover of Mannesmann by Britain's Vodafone AirTouch in 2000, which showed that unsolicited takeovers were possible in Germany, even for foreigners. And then progress seems to stop. Nothing like Vodafone-Mannesmann has happened since. Last year, Germany's rejection of a common European takeover code in favour of its own new law was seen by outsiders—unfairly, say German optimists—as an attempt to make hostile bids easier to resist.

This week's developments show that corporate Germany is lurching forward once again. In 1999, Holzmann had been saved by Gerhard Schröder, Germany's chancellor, who promised state support and persuaded the firm's banks to keep faith. This time, Mr Schröder stayed quiet, even though this is an election year in Germany. Holzmann's biggest creditor and shareholder, Deutsche Bank, put forward a plan to keep the company afloat; but its fellow banks turned it down, and in came a liquidator who is now trying to sell what he can. This looks like the right answer for a struggling firm in an industry long plagued by overcapacity. It's just a pity the chancellor didn't twig the first time.

Media mire

As for Mr Kirch, it has long been clear that he had only a slim chance of keeping control of his empire, which admits to debts of *euro*6.5 billion ($5.8 billion). His pay-TV operation, Premiere World, is bleeding heavily. Mr Murdoch's BSkyB, a British pay-TV firm, owns 22% of it, but has written off the asset and has an option to sell it back to Mr Kirch for *euro*1.75 billion, money the German mogul does not have. The thought that Mr Murdoch, who owns some strident newspapers in Britain, might get his hands on the Kirch treasures caused horror in the German press and led to pleas for a “national solution” from government circles.

Yet the banks can tolerate Mr Murdoch, and they are in charge. Granted, he will not have control of KirchMedia: other minority shareholders in the company, including Silvio Berlusconi's Mediaset, are also expected to beef up their stakes. There is a lot yet to be sorted out, including the fate of Premiere World.

And politics is still present, via Bayerische Landesbank, the Kirch group's biggest creditor. This is half-owned by the state of Bavaria, whose premier, Edmund Stoiber, is challenging Mr Schröder for the chancellorship. Still, the overriding impression is of banks and other creditors trying to get their money back rather than propping up Mr Kirch come what may.

The events of the past week are not the only recent signs of change. Last month, a government-appointed commission produced a code of corporate governance. By law, all quoted companies will have to say whether they comply with certain of its recommendations or explain how and why not. The code is too weak for some critics: companies will not have to disclose individual directors' pay, for instance. Yet it does attempt to improve Germany's two-tier board system—in particular, by making supervisory boards better guardians of shareholders' interests, despite the presence on these boards of workers' representatives and ex-managers. At any rate, corporate governance has come a long way since the not-too-distant days when directors regarded all shareholders' questions as gross impertinence.

Commercial banks—traditionally the linchpins of German capitalism, and still among the country's biggest industrial shareholders—are changing their behaviour too. Now that capital-gains tax on the sale of their industrial stakes has been abolished, they are cutting them back. Those stakes they keep are being treated more as assets that must pay their way and less as the basis for a cosy friendship with the companies' managers.

Thanks to pressure from the European Union, public-sector banks, including Bayerische Landesbank, will also have to rethink their business. After 2005 they will no longer enjoy financial guarantees from state governments. That should force them to raise money, and thus to lend, on commercial terms.

If all this is so brilliant, you may say, why is the economy still so weak? A fair question, with a lot of answers: the drag from the former East Germany; the stiffness of the labour market (which may, with luck, be eased); the simple fact that changes in corporate behaviour take time to translate into profits and growth. But there are times when it is worth taking stock, and noting progress so far. And what better time than in the week when Holzmann succumbed and Leo Kirch at last threw in the towel?

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ABB in trouble

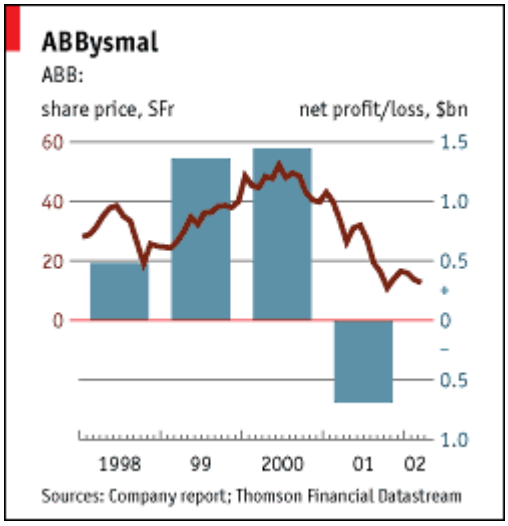
Neither lender nor borrower be

Mar 28th 2002
From The Economist print edition

Red faces and red ink at what was once the bluest of European blue-chips

HOW quickly embarrassment has developed into a full-blown crisis. Formed in 1988 when Sweden's Asea merged with its Swiss engineering rival Brown Boveri, ABB became an apparent powerhouse, employing 160,000 people and regularly vying for a spot among the world's most admired companies. Still massive, today it is in desperate trouble, negotiating with its bankers to head off a financial crunch, its reputation for good management in tatters and its share price a shadow of its old self (see chart). While probably not in a death spiral, ABB will certainly have to take drastic steps, including a giant rights issue, to begin a process of rehabilitation.

The crisis was triggered in February by the revelation that Percy Barnevik and Goran Lindahl, two former bosses, walked away with $136m of pension and retirement benefits between them. After a furore—especially loud in Mr Barnevik's case, given that he had previously been acclaimed as the nearest thing Europe had to General Electric's Jack Welch—the two men agreed to hand back around half of the money. But the episode raised an awkward question: how could something so awful happen if ABB was really the open, well-managed group it purported to be?



Under scrutiny, ABB's record began to fall apart. Last year, it lost $691m amid promises by Jorgen Centerman, chief executive since January 2001, of a recovery following a big restructuring. Worryingly, the results included a first-time loss from the financial-services arm, caused by $433m of exceptional losses in the insurance business. Before those items, financial services accounted for 40% of ABB's operating profits. In recent years, this division has contributed on average about one-third of group profits, despite employing only 1% of staff—and this in a company that was seen as being in the business of making things, not deliberately taking financial risks.

The financial-services arm is also intertwined with the group's horribly over-stretched balance sheet. At the end of 1999, ABB had net cash. But today it has more than $4 billion of net debt, and Mr Centerman has promised to cut borrowings by $1.5 billion this year. The company got into debt after making $4 billion-worth of acquisitions and spending $1.4 billion buying back its shares. But it also took a big risk by ploughing half of its free cash flow into financial services, betting that returns from this growing business would justify the increase in its balance-sheet leverage.

Investors are particularly nervous about ABB's short-term debt, in the form of commercial paper. At the end of last year, it had $3.3 billion of commercial paper outstanding, representing one-third of its gross debt. The commercial-paper market has problems of its own (see article), but ABB is a good example of how an apparently clever idea can be taken past the point of recklessness. The company was able to raise short-term paper at very low interest rates, which lowered its overall cost of borrowing. Analysis by Merrill Lynch suggests that ABB was paying a full percentage point below the Fed funds rate during 2000 and 2001. It used this cheap money to fund its own operations, but also lent some of it through the financial-services arm.

This strategy was reckless because it relied upon the short-term stability of both interest rates and ABB's credit rating. In February, Mr Centerman admitted that ABB might have trouble rolling over its commercial paper as its existing borrowings mature, but tried to reassure the market by announcing that

he had obtained a $3 billion back-up credit line from ABB's main banks. As financial pressure mounted during March, Moody's, a credit-rating agency, duly downgraded ABB's debt twice. On March 21st, the company was forced to call on the back-up facility; this week it began negotiating new borrowing terms with its banks.

Merrill Lynch reckons that ABB's average cost of debt could rise from 3.2% to 4.9%, adding $160m to this year's borrowing costs. In addition, the financial-services arm will be starved of the cheap money it has relied upon to date. That will limit its growth and lower the price it could fetch were ABB to try to sell it.

On top of all this, ABB has asbestos liabilities dating from an American acquisition in 1989. It has set aside $790m, but analysts think the true liability is more like $2 billion. ABB also has unfunded pension liabilities of at least $1.4 billion. And it carries on its balance sheet $789m of cash advanced by its customers as prepayments for contracts not yet completed. All told, say analysts, the company has up to $5 billion of liabilities on top of its stated debt position.

In ABB's humiliation, there are echoes of other recent corporate mishaps. As with Enron, analysts and (we confess) journalists failed to ask questions when things seemed to be going well, despite ABB's now-glaring over-reliance on financial, as opposed to material, activities. Like Britain's Marconi, the group moved too swiftly from holding cash to having crushing debts. And like General Electric, ABB took a big risk by skewing its borrowings towards short-term paper. It will emerge from its crisis smaller and weaker—and maybe even a bit wiser too.

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Advertising market

Looking for the light

Mar 28th 2002
From The Economist print edition

America's ad market may be turning, but Europe will have to wait

WHEN Rupert Murdoch sees beams of light in the American advertising market, it is not necessarily time to reach for the sunglasses. Last October, when the impact of September 11th was only beginning to tell, the boss of NewsCorp, a media group, had already identified “strong rays of sunshine”. With ad sales still languishing, Mr Murdoch declared last month that “there are some hints of a modest upswing in the US advertising market.” His early optimism turned out to be misplaced. Now, however, other industry observers are beginning to agree with him.

Earlier this month, an advertising confidence index compiled by the Jack Myers Report, a media-research firm, rose by 5%, its fastest rate for 18 months. Another study, by Leland Westerfield of UBS Warburg, an investment bank, concluded that “the US advertising recession is at its end; the cyclical recovery appears to be under way sooner than anticipated.” Mr Westerfield has now revised his previous forecast of a 2% fall in overall ad spending in 2002 to growth of 1%. “It's not Mardi Gras,” says Doug Flynn, head of Aegis, an advertising agency, “but the attitude and expectation in the US ad market has become much more positive.”

Advertising usually exaggerates the economic cycle: falling sharply and early in a downturn, and rebounding strongly once the economy has begun to recover. This is because most managers prefer to trim their ad budgets rather than their payrolls, and restore such spending only once they feel sure that things are looking up. Last year, America's ad market shrank by 9.8%, according to CMR, a research firm. Although ad spending has not yet recovered across all media, some analysts now expect overall ad spending to start to grow in the third quarter (see chart).

The signs of improvement are patchy, however. Ad spending on radio and television seems to be inching up—advertising on American national radio was up 2% in January on the same period last year, according to Aegis—while spending on magazines and newspapers is still weak. Even within any one market, there are huge differences: just pick up a copy of one of the now-slimline high-tech magazines that once bulged with ads, and compare it with the hefty celebrity or women's titles. Advertisers in some categories, such as the travel industry, are still reluctant to buy space or airtime, while others, such as the car and movie businesses, have beenbolder. The winter Olympics, held last month in Salt Lake City, has also distorted the spending on broadcast advertising in the first quarter.

Nonetheless, there is an underlying pattern. One measure is the booking of ad spots for national brands on local television. By early March, according to Mr Westerfield's analysis, such bookings were growing fast across eight out of the top ten advertising sectors, led by the financial and motor industries. UBS Warburg now expects the “upfront” market, which starts in May when advertisers book advance ad spots on the TV networks for the new season in September, to be up 4% on last year. On some estimates, even online advertising could pick up by the end of the year.

All of which would be a relief for the battered media industry, particularly for those companies heavily exposed to the advertising cycle and to the American market. Viacom and NewsCorp, for instance, each derives about half its revenues from advertising. AOL Time Warner, which this week revealed it will write off a record $54 billion in the first quarter of this year under new accounting rules, is less dependent on

ad revenues, but is heavily concentrated on the United States. If America's ad market is turning, however, Europe's recovery will probably not follow for another six to nine months, because its cycle is lagging behind. That would delay the relief for the more globally minded media groups, such as Vivendi Universal.

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Quebec's silly business regulations

Low-fat spat

Mar 28th 2002 | MONTREAL
From The Economist print edition

Margarine of any colour, as long as it's white

EUROPE is famous for its plethora of consumer-coddling business regulations. Silly rules have also taken hold in that little piece of Europe in North America, French-speaking Quebec. One local law, for instance, limits large supermarkets to four employees on Sunday, the idea being to promote small stores (whose prices are higher than the supermarkets'). But that looks positively sensible compared with Quebec's rules concerning what you spread on your toast.

Margarine is yellow in every Canadian province except Quebec, where it is its natural colour, white. It is against the law to sell yellow margarine because, says the Quebec government, people might be fooled into thinking it is butter. Who could be behind such a thoughtful rule? Step forward Quebec's dairy industry, which is out to protect butter from the, er, spread of margarine. While Quebec has only 24% of Canada's people, it is home to 38% of its dairy cows.

Among those who find the law unpalatable is Unilever, a consumer-goods giant that has 60% of the local margarine market. In 1997, it challenged the ruling by importing some of the illegal yellow stuff to a supermarket in Alma, a remote town north of Quebec City and home to the then premier, Lucien Bouchard. The yellow margarine was seized. Unilever sued, arguing that the ban violates international laws, including the North American Free-Trade Agreement, which is popular in Quebec.

This week, the case went before the Court of Appeal, but a ruling could be months away. Unilever says the ban is costly, and points out that the dairy industry dyes butter to give it the same colour all year round. But Quebec's government is standing by its colour discrimination. Even the name suggests white, not yellow, say officials: margarine, invented by Hippolyte Mège-Mouriès in France in 1869, is named after the Greek word for pearl.

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Malaysian corporate restructuring

Doom and gloom for Daim's boys

Mar 28th 2002 | HONG KONG
From The Economist print edition

One by one, cronies are losing their empires

AS *The Economist* went to press, it appeared likely that Tajudin Ramli, one of Malaysia's most notorious crony capitalists, was at last losing control of his business empire, a fate he has been battling against desperately for months. This would make him the latest in a string of high-profile victims of the decision last year by Mahathir Mohamad, the prime minister, to clean up Malaysia's boardrooms. Indeed, it was Mr Tajudin's shenanigans that prompted Mr Mahathir to act in the first place.

Mr Tajudin rose to power during Malaysia's boom years in the early 1990s, as one of the most prominent beneficiaries of the country's affirmative-action policy towards ethnic Malay businessmen. A protégé of Daim Zainuddin, a former finance minister, he ran Malaysia's airline and an industrial conglomerate, Technology Resources Industries (TRI), that owns the country's second-largest mobile-phone operator. Things appeared to be going well until the financial crisis of 1997, which left Mr Tajudin, like so many other tycoons, under mountains of debt.

To deal with bad loans Malaysia, like other crisis-hit economies in South-East Asia, launched an asset-management agency, Danaharta, which demanded that Mr Tajudin pledge a good part of his various shareholdings as collateral for his companies' debts while these were being restructured.

In the immediate aftermath of the crisis, nothing much seemed to be changing. Malaysia became a pariah among international investors. Their outrage was greatest a year ago, when Mr Tajudin managed to sell his stake in the airline to the government for nearly three times the market price. It looked like a blatant bail-out by Mr Daim of one of his cronies. Too blatant for Mr Mahathir, apparently: he fell out with Mr Daim, who resigned last June.

In short order, curtains started coming down on “Daim's boys”. The first to be forced out, last August, was Halim Saad, whose empire spanned Renong and UEM, the two biggest corporate debtors. Other nationalisations followed. And the police started investigating “irregularities” at the airline, which had occurred while Mr Tajudin was in charge.

Danaharta, meanwhile, became more businesslike about restructuring TRI. A share issue to recapitalise the company will close in early April, and if Mr Tajudin does not come up with funds to subscribe to his rights by then, his stake will be diluted from about 24% to 11%. Those shares, in any case, are now under the supervision of Danaharta, which has been hinting that a sale may be the best way to help TRI. Telekom Malaysia, the country's fixed-line incumbent, is keen to buy Mr Tajudin's stake.

Given the pressure on him, it is perhaps little wonder Mr Tajudin has lost his nerve. Last week, he begged Malaysia's top court for an injunction to keep Danaharta from taking TRI away from him. On March 25th, the court postponed its hearing by a few days to give Danaharta time to respond. The agency tersely announced that it faced no legal restrictions in dealing with Mr Tajudin's account.

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Mobile telecoms

A la i-mode

Mar 28th 2002
From The Economist print edition

Will Japan's successful mobile-Internet system take off in Europe?

Reuters

A trend-setting service

MOBILE-network operators in Europe have long looked enviously at Japan, which leads the world in the adoption of the mobile Internet. Tens of millions of Japanese consumers routinely use tiny phones with vivid colour screens to send and receive e-mail, download cartoons and consult weather reports. Better still, they pay handsomely for the privilege, which helps operators to offset falling revenues from voice calls. Now the Japanese model is coming to Europe. Earlier this month, NTT DoCoMo, Japan's leading mobile operator, launched its popular “i-mode” system in Germany in conjunction with KPN Mobile, which will extend the service to the Netherlands and Belgium over the summer. KPN faces stiff competition, however, because rival operators are copying i-mode's best bits.

I-mode's popularity in Japan, where it is used by over 31m subscribers, owes much to local factors, such as the high cost of dial-up Internet access, a fondness for gadgets and a lack of enthusiasm for PCs. But two of the reasons for i-mode's success can be easily replicated in Europe.

The first is its business model, which involves generous revenue-sharing with providers of content. Once approved by DoCoMo, each i-mode content provider can charge users up to ¥300 ($2.50) per month. DoCoMo collects these charges as part of the monthly bill, takes a 9% commission and passes the rest to the content provider. KPN has adopted a similar revenue-sharing model.

Other European operators have historically been unenthusiastic about revenue-sharing, so there is little incentive for providers to offer content via wireless application protocol (WAP), Europe's nearest equivalent to i-mode. But things are starting to change. A number of European operators are now introducing i-mode-style revenue-sharing to try to kick-start a WAP content market—among them Germany's T-Mobile and Sweden's Telia, which this week acquired Sonera, a Finnish rival, for about *euro*7.5 billion ($6.6 billion).

The second aspect of i-mode's success that European operators are starting to emulate is the notion of the operator-specific handset. In Japan, handset makers work closely with the country's three operators, each of which uses its own network technology. This means that a handset designed for use on one network will not work on another. But it has the advantage that operators can specify handset features in great detail, enabling them to differentiate themselves from their rivals, and ensuring tight integration between handset, services and content. Japan's smallest operator, J-Phone, has had great success with its camera-phones, which allow photos to be taken and e-mailed while on the move. KPN's European i-mode service requires a special handset made by NEC or Toshiba.

Other European operators are waking up to the idea of operator-specific handsets too. Later this year mmO2, a British operator, will launch an organiser-style handset called the XDA; other companies plan to launch handsets based on a design licensed from Danger, a firm based in Palo Alto, California.

Whether it makes sense for operators to get into the handset business remains to be seen. Tony Milbourn of TTP Communications, a handset-design firm based in Cambridge, England, points out that handset-manufacturing economics make sense only for quantities of at least 1m units a year. As a result, says Niklas Savander of Nokia, the world's largest handset maker, operator-specific handsets made in smaller quantities will be relatively expensive, and will probably be confined to top-of-the-market niches. (The XDA, for example, is aimed at business users.) Besides, Nokia now allows operators to customise its

handsets' software, thus providing an easier and cheaper form of differentiation.

All of which leaves one big question: do Europeans actually want to use i-mode, or clones thereof? Henry Elkington of the Boston Consulting Group notes that cultural differences mean that the sorts of services that are popular in Japan, such as daily horoscopes or cartoon downloads, may not prove such hits in Europe. Moreover, Europeans are used to getting their Internet content free, and thus may be reluctant to pay for it on their phones.

In short, a clever business model and snazzy technology are necessary, but not sufficient, for the mobile Internet to take off in Europe. The remaining piece of the puzzle—new content and services that users will pay for—remains elusive.

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Asian aviation

Place your bets on the future of flying

Mar 28th 2002 | HONG KONG
From The Economist print edition

How will people be flying to and from Asia in future? A lot rides on the answer

THE fate of Airbus and Boeing, the world's two biggest aircraft makers, may be decided in the Asia-Pacific region. Why? Because, for Boeing to succeed, Pacific air-traffic patterns have to start following Atlantic trends. For Airbus to thrive, Asia has to stay different.

The difference between Asia and the rest of the world goes to the heart of one of the great schisms in the industry: will airlines in future bring passengers to their final destinations directly, by flying "point-to-point", or indirectly, by flying them first to a hub and then out to the spoke airport? The outcome is crucial for both the airlines and the aircraft makers. Point-to-point flying requires long-range but relatively small planes, and Boeing is concentrating on building these. The hub model requires gigantic "super jumbos", and Airbus is largely staking its future on these.

In the United States, thanks in large part to liberalisation, the hub model has been losing out to non-stop connections over the past two decades. In the 1980s, passengers flying from, say, Berlin to Washington, DC, had to switch planes at least once. These days they can fly direct. So whereas most flights across the Atlantic in the 1980s were in Boeing 747 jumbos, nowadays most are in smaller planes.

By contrast, air traffic to, from, and within Asia—a market that both Airbus and Boeing expect to triple within 20 years, overtaking North America as the world's largest—is still centred on hubs. Some 80% of flights from America to Asia stop in Tokyo, for instance, even though two out of three passengers on these flights are destined for other Asian cities. Flights within Asia also tend to rely on hubs, such as Hong Kong and Singapore.

Air traffic to, from, and within Asia—a market that both Airbus and Boeing expect to triple within 20 years—is still centred on hubs

There are good reasons for this, not least geography. For many years, Japan was the only part of Asia that an aircraft could reach in a non-stop flight from the American west coast. As the range of aircraft grew, it became possible to fly non-stop to places such as Seoul and Taipei. But some big airports, notably Singapore, remain out of reach. Moreover, population centres in Asia are more concentrated than those in Europe and North America.

Airbus has concluded from all this that Asia will retain the hub model, and it envisions a shortage of landing slots at big airports in the region. This is why Airbus is betting heavily on the A380 super jumbo, a 555-seat double-decker, 97 of which have already been ordered. Adam Brown, an Airbus director, thinks that eight of the top ten routes to be operated by such huge aircraft in 2019 will be in Asia, and that Asian airlines will take over 40% of the world's super jumbos.

Singapore Airlines has already ordered several A380s and will be the first to operate one, in 2006. Stuck in a city-state whose fate is tied to its hub status, the carrier is praying that non-stop flights will not lead to Singapore being passed by. Although travellers will seek greater convenience by using point-to-point services, claims Michael Tan, a director, this will not in itself threaten hub operations.

Hong Kong's incumbent carrier, Cathay Pacific, is more honest and more cautious. Says Tony Tyler, in charge of corporate development: "We both [Singapore and Cathay] have to hope that Airbus has it more right than Boeing, so that we can continue to hub traffic, and it won't all go on direct flights like Vancouver/Bangkok or San Francisco/Kuala Lumpur." But those hopes might yet be dashed, so Cathay has delayed ordering the A380, opting instead for smaller long-range aircraft to connect to more spoke cities.

Most other Asian airlines, meanwhile, and certainly those not based in obvious hubs, are taking for granted growth in point-to-point flying. China Southern, which is about to be restructured into one of China's three dominant carriers, recently started a service from Guangzhou to Los Angeles, and is considering flights to Las Vegas as well. Last year, other airlines linked Taipei to San Jose, and Beijing to Chicago.

Two other developments are helping point-to-point. One is liberalisation. America, for instance, has in recent years signed open-skies agreements with New Zealand, Malaysia, Brunei, South Korea, Taiwan and Singapore. Several of these destinations are currently out of direct reach, but not for long, thanks to advances in aircraft technology. The greatest growth market is in non-stop flights between new city pairs in Asia and America, says Jim Eckes of Indoswiss, an aviation consultancy. If he's right, that spells trouble for super jumbos, and for Airbus.

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Face value

Thinking small

Mar 28th 2002
From The Economist print edition

Could social investment be the new venture capitalism? Sir Ronald Cohen hopes so

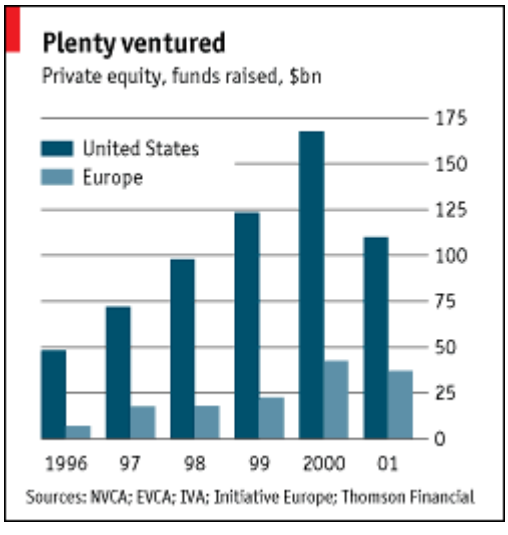
THIS is not a good time for venture capital. In the final quarter of 2001, the average valuation for venture-backed companies in America was less than half that at the peak in the first quarter of 2000, according to Venture Economics and the National Venture Capital Association. But Sir Ronald Cohen, co-founder of Apax Partners, is not glum. He had the good judgment (or perhaps luck) to raise a hefty sum just before the market turned sour. And venture capitalists in Europe, where Apax is one of the biggest private-equity fund managers, have always tended to invest more in established businesses than Americans do.

In any case, Sir Ronald can afford to take a long view. He was venturing before most such capitalists were born, having dreamed up Apax 30 years ago. He met Maurice Tchénio, a fellow student at Harvard Business School, and together they decided that Europe's snooty view of entrepreneurs represented an opportunity. Provide the money, and good businesses would spring up.

Of course, it wasn't so easy. Today Britain accounts for half of the venture-capital business in Europe (which does only between a quarter and a third as much investing as the United States). But in the 1970s it was a dismal place to launch a company, with a rocky economy and high taxes. Sir Ronald, however, had gone to Harvard on a scholarship that obliged him to return. And Britain had already been kind to him. His family had been kicked out of Cairo at the time of the Suez crisis and lost everything. He got to Oxford University, where he flourished. After Harvard, he worked briefly as a consultant at McKinsey, like so many successful people in Britain of his generation. “They said I'd do well if I stayed. But I always think the view is better when you are closer to the precipice,” he recalls.

So he launched Apax at the age of 26. For a decade, the business concentrated on corporate finance. It also found a third partner, Alan Patricof: he heads Apax's American business, which is much larger than that of rival European funds.

In 1981, Apax launched its first fund. Still, by 1989 the company had only about $500m under management. Then came the golden 1990s. In the peak year of 2000, the private-equity market in America and Europe raised $210 billion (see chart). Since then, things have soured—although investment in America crept up in the fourth quarter of 2001. Apax has done better than most. Sir Ronald's long view meant that the company prepared for the downturn. Its most recent fund, capped at *euro*4.4 billion ($3.9 billion) last year, brings total funds under management worldwide to over *euro*12 billion.



Apax deploys its firepower in two ways. About a third goes into early-stage investments, building on the creativity of new small firms. The rest goes to finance management buy-outs. The former is wallowing in depression, because large companies have stopped spending on information technology. The latter is booming as big businesses sell spare assets to rescue sagging balance sheets. Last year, Apax invested in the yellow-pages arm of BT, spun off as Yell (and due for flotation this year), and it is now negotiating a deal for Energis, a tottering telecoms

business.

Sir Ronald is not a man who thinks that making money is justification enough for a business career. He cares that venture capital improves the economy, which may be why Gordon Brown, Britain's chancellor of the exchequer, so admires him. Private-equity houses increase the options available to companies wanting to sell bits of their business: they can raise more money than could a quoted company, which needs shareholder approval.

A company may also prefer to sell, at least initially, to a financial investor than to a strategic one. This was the case when Apax bought the sales and servicing arm of Ericsson, a big telecoms company. Ericsson would have been far more reluctant to deal with a competitor such as General Electric, argues Sir Ronald.

For investors, private equity offers the chance of higher rewards than do the public markets. It has therefore become a favourite with pension funds, which are looking for returns rather than liquidity, and which account for perhaps half the money raised. The funds of MIT, Yale and Harvard universities have been particularly enthusiastic investors. Curiously, pension funds now frequently split their money between the least discretionary of investments—tracker funds that automatically follow the average trend on the public markets—and venture-capital funds, where the investor must be both nimble and constructive.

A social purpose

Sir Ronald and his company are now contemplating a changing future. He has decided to retire in under four years' time. So Apax is trying to create a new and more formal structure to link together its semi-autonomous national outposts. It will have more difficulty replacing Sir Ronald's skill in binding together the big wheels who have joined the company after successful careers elsewhere, such as Stephen Grabiner, former boss of ONdigital, a digital-television venture, and his brother Mike, former chief executive of Energis.

And Sir Ronald's new role? He says he is intrigued by social investment: profitably investing commercial money in projects in disadvantaged areas. In April, he will launch the Bridges Community Development Venture Fund, with £20m ($29m) from financial institutions matched by £20m from the British government. “I see community venturing as a new sector that has the possibility to become very successful,” he says. Venture capitalists are used to waiting patiently for the best of their investments to bear fruit. To make social investment pay, Sir Ronald will need to take a very long view indeed.

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House prices

Going through the roof

Mar 28th 2002
From The Economist print edition

The Economist's new global house-price index confirms that spring is in the air. But will the housing booms in America, Britain and elsewhere end in bust?

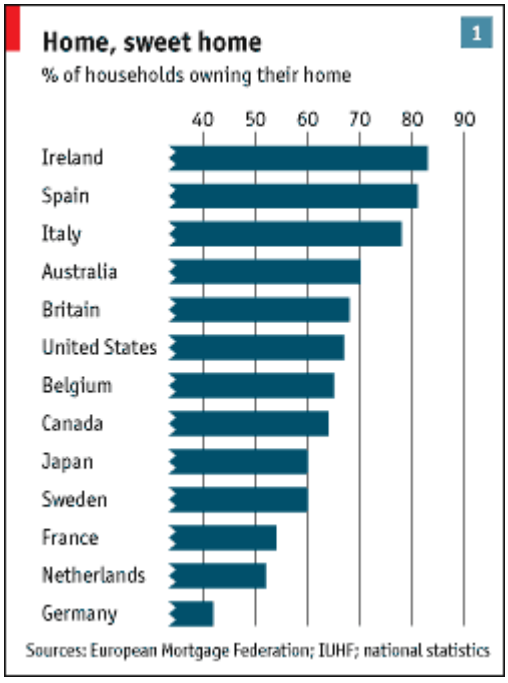
IF THERE is one single factor that has saved the world economy from a deep recession it is the housing market.

Despite the sharp fall in share prices and a worldwide plunge in industrial production, business investment and profits, consumer spending has held up relatively well in America, Britain and several other economies, supported by low interest rates and the wealth-boosting effects of rising house prices. Over the 12 months to February average house prices in America rose by 9%, and those in Britain by 15%. Adjusting for inflation, this is the biggest real increase on record in America and the biggest in Britain since 1988.

Indeed, house prices are rising well ahead of inflation in many other developed economies. This is odd: during past economic downturns, such as the early 1980s and early 1990s, real house prices fell. The current spurt in prices is therefore causing some economists to fret that historically low interest rates are inflating a dangerous house-price bubble.

House prices do not just dominate dinner-party chatter; they also have a big influence on the economy. For most people in most countries, housing is the single biggest component of their wealth. In all the larger developed economies except Germany, more than half of all households own their home (see chart 1). Housing accounts for as much as 30-40% of total household wealth in Western Europe and almost 25% in America. Even in America, the average household has four times as much wealth in housing as in equities.

As a result, swings in property prices play an important role in the economic cycle. By boosting wealth, higher house prices encourage homeowners to spend more. They also allow owners to borrow more against the rising value of their homes. This largely explains why consumer spending held up last year as share prices tumbled. A recent study* across 14 countries found that the wealth effect of changes in property prices had at least twice as big an impact on consumer spending as did changes in share prices.



It is thus unfortunate that timely data on house prices across different countries are much harder to come by than figures on the prices of shares. To help fill this gap *The Economist* is launching a set of global house-price indices. We have collected annual data on house prices in 13 developed economies going back to 1980, both on an average nationwide basis and in big cities. The price changes, in real and nominal terms, will be updated as new data become available, but at least once a year.

The countrywide data come largely from the Bank for International Settlements, updated where necessary using national sources. Our city data have been provided by estate agents or lending institutions in each country. The indices may not be fully comparable between countries, but they offer a broad-brush view of relative price trends.

The most striking observation from table 2 is the huge variation in house-price inflation in different countries over the past two decades. Since 1980 Spain has seen the biggest rise in house prices in real terms, by 124%, equivalent to almost 4% a year. Britain and Ireland have also seen big gains of around 90%. Germany is the only country where house prices have fallen in real terms over the past two decades, by 21%. Average real house prices in the United States have risen by a modest 20%. Since 1980 our global index (weighted by countries'GDP) has risen by one-fifth.

The Economist house-price indices 2

Nationwide average

	% change 1980-2001		% change in 2001	
	Nominal	Real*	Nominal	Real
Spain	726	124	15.4	11.4
Ireland	451	95	14.0	8.6
Britain	389	89	10.5	8.5
Netherlands	181	66	8.7	4.0
Belgium†	140	23	5.6	3.0
US	158	20	8.6	5.6
France	155	15	6.9	5.1
Japan	52	15	-4.1	-3.6
Canada	152	13	2.7	0.2
Italy‡	343	13	7.9	5.0
Australia	213	10	11.2	6.6
Sweden	183	6	7.9	5.3
Germany‡	33	-21	1.6	-0.9
Global index	148	19	5.4	3.2

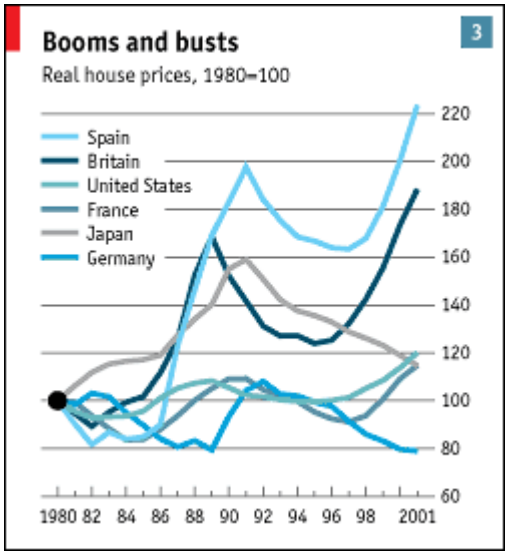
	% change 1980-2001		% change in 2001	
	Nominal	Real	Nominal	Real
Dublin	767	207	14.6	9.2
Madrid	819	149	19.3	15.2
New York	356	112	11.5	8.4
London	427	103	11.2	9.3
Sydney	419	83	18.1	13.1
Brussels†	210	58	6.7	4.1
Paris†	250	58	10.4	8.6
Stockholm	312	54	10.2	7.5
Tokyo	72	30	-5.8	-5.3
Amsterdam	103	20	6.1	1.5
Frankfurt	69	nil	1.5	-1.0
Toronto	80§	-9§	2.4	-0.1
Milan	na	na	9.8	6.8

*Adjusting for consumer-price inflation
†2001 based on Q1-Q3 data ‡Provisional
§% change since 1981

It is normal for house prices to rise in real terms over time. This is partly because house-price indices are generally based on the average price of properties (flats as well as houses) that have been sold. They are therefore not adjusted for improvements in the size or quality of homes over time. The average American home is today one-quarter bigger than in 1980. House prices also rise over time in line with real incomes. A country with faster growth in incomes is likely to see a bigger increase in house prices. This explains why Spain has seen the fastest house-price inflation, as its income per head has been converging with that of the rest of the EU.

American house prices have been less volatile than elsewhere (see chart 3): nominal prices have not fallen in a single year since records began. In contrast, British home prices dropped in each of the four years to 1993. House-price booms in the late 1980s in Japan and Sweden were also followed by a steep plunge in prices.

Yet average nationwide prices can conceal as much as they reveal. House prices in cities tend to be more volatile, partly because the supply of land on which to build is more limited. Since 1980 prices in New York have risen in real terms more than five times as fast as the national average. In 1983-89 nominal prices in New York rose by 137%; those nationwide by only 45%. Prices then slumped in New York, while average national prices continued to rise.



This is why we have also collected data on house-price movements in a selection of big cities. The largest increases in real terms since 1980 have been in Dublin (207%), Madrid (149%), New York (112%) and London (103%).

Over the past decade, only three countries have completely missed out on a housing boom: Canada, Germany and Japan. Tokyo's house-price bubble is still deflating: after rising in real terms at an average annual pace of 12% in the 1980s, prices have fallen for 11 consecutive years to less than half their peak in 1990.

Germany is suffering from a hangover following its unification boom. In the early 1990s the demand for

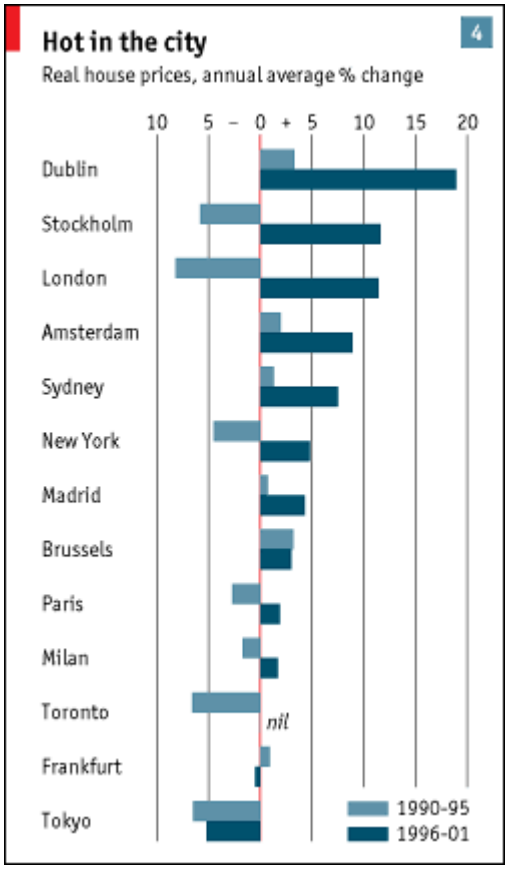
housing in western Germany increased sharply as a result of immigration from the east. In 1990 and 1991 average German prices soared by one-third in real terms. A massive building boom, encouraged by tax breaks and government subsidies, then created excess supply, and prices have dropped by almost 30% in real terms since 1992. Berlin and Munich have seen much bigger declines than Frankfurt.

House party

Most of the world, however, has been enjoying a boom in house prices over the past few years, with prices rising at their fastest rate in real terms since the late 1980s in nine of our 13 countries. The largest real increases were in Madrid (15%) and Sydney (13%). Prices in London and New York wobbled during the fourth quarter of last year in the wake of September 11th, but are now rising again. Our overall global index gained a more modest 3% in real terms last year, thanks to another fall in prices in Germany and Japan.

These increases follow several previous years of double-digit gains in London, Dublin, Amsterdam, Stockholm and Sydney. While New York prices are rising faster than the national average, prices have been bubbling even more vigorously in some other American cities, with annual increases of over 20% until last year in San Francisco. During 2001, house-price inflation slowed in the euro area, but still managed a brisk pace (Germany apart). House prices have hotted up in the past three years in Milan and Paris after their slide in the first half of the 1990s. The surge in Spanish prices last year was fuelled partly by the rush to spend pesetas earned in Spain's vast black economy before the introduction of euro notes and coins made them worthless.

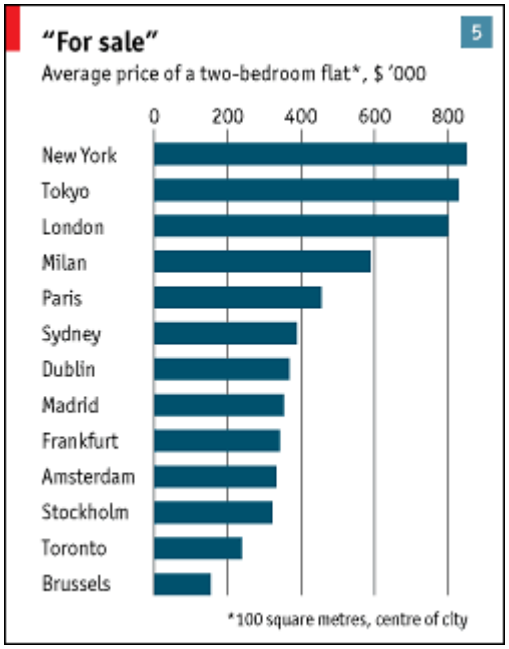
Chart 4 splits the past decade into two: in most countries house prices fell or stagnated in the first half, then rose in the second. Ireland has been the world leader in house-price inflation since 1996. In real terms, prices in Dublin have increased by an annual average of 19%, thanks to a fall in interest rates ahead of joining the euro and robust economic growth. Irish owner-occupation has jumped from 74% in 1981 to 83%, the highest rate among our 13 countries. In 2000 the government introduced some tax measures to try to curb speculation and house prices started to fall in the second half of last year.



All countries' tax systems tend to favour housing over financial assets, by giving tax relief on mortgage-interest payments or on capital gains. But some are more generous than others. Britain, Australia and Canada have abolished tax relief on mortgage payments, but most European economies still offer relief, though often offset by an annual tax linked to the value of a property. Within Europe, Spain and the Netherlands offer the most generous tax relief on home purchases. Americans also get big tax breaks: interest on a mortgage up to $1m is deductible at a homebuyer's marginal income-tax rate.

Stamp duty and other transaction charges tend to be higher in many continental European countries than in America or Britain. In Belgium, transaction taxes, and legal and estate-agent (realtor) fees amount to almost one-fifth of the average purchase price. As a result, Belgians tend to move less often, and view property simply as somewhere to live rather than as a speculative investment.

That may be one reason why property is much cheaper in Belgium. Chart 5 compares the price of a typical two-bedroom flat (100 square metres) in a smart central area in the 13 cities. New York, Tokyo and London are by far the most expensive; bargain hunters should head for Brussels. Sell your apartment in South Kensington and you could afford to buy one in each of Brussels, Stockholm and Amsterdam.



As safe as houses?

Why has house-price inflation been so robust over the past year despite a recession or at least a sharp slowdown in most economies? In the short term, the supply of housing is more or less fixed, so house prices are mainly driven by demand factors: namely, personal disposable income, real interest rates and the return offered by alternative investments such as equities.

The recent surge in house prices in many countries has largely been driven by low interest rates. In previous recessions house prices fell because the recession was brought on by central banks raising interest rates to squeeze inflation. In contrast, this downturn was caused by the bursting of an economic and financial bubble; inflation remained low. As a result, the Fed and other central banks were able to push interest rates lower than in the past, reducing the cost of a mortgage. Meanwhile, the volatility of share prices over the past couple of years has made the returns on property look more attractive, encouraging households to shift some of their money out of equities into the relative safety of bricks and mortar.

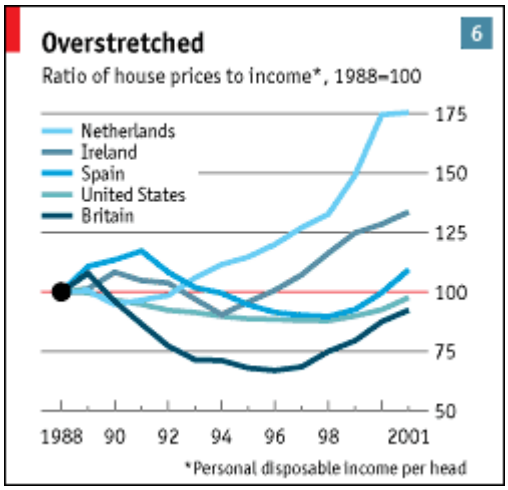
However, countries that saw big increases in house prices in the late 1980s later saw a big collapse. Could this boom also end in tears, leaving households with homes worth less than their mortgage debt? In America, Britain and several other economies, mortgage debts have soared to record levels in relation to household income. Last month the IMF suggested that the rapid rise in house prices and household debt in Britain might be a potentially dangerous bubble fuelled by low interest rates. There is also some cause for concern in the United States. Dick Berner, an economist at Morgan Stanley, points out that American house prices have risen by more in real terms over the past five years than during any previous five-year period. Housing markets in Ireland, the Netherlands, Sweden and Australia have also been displaying bubble-like symptoms in recent years.

The optimists argue that there is little to worry about. With interest rates so low,homebuyers can comfortably service bigger mortgages and so support higher house prices. But lower interest rates do not necessarily justify more borrowing and higher house prices; homebuyers may be suffering from a bout of money illusion. Short-term interest rates have fallen to their lowest for 40 years in America and Britain mainly because inflation is so low. American real long-term rates are only a tad below their historical average.

Lower inflation shifts the profile of payments over the life of a mortgage. When inflation and interest rates are low, borrowers pay less in the early years, but more later on as the real value of the mortgage is eroded more slowly. But the total real cost of paying off the loan is exactly the same.

A better measure of housing affordability is the ratio of house prices to average disposable income—the most important determinant of house prices over the medium term. The good news is that, on a nationwide basis, the house-price-to-income ratio is still below its late 1980s peak in Britain and America (see chart 6). But if prices continue to rise at their current rate, that peak will be passed within a year in America. In Spain, too, where house prices have been soaring, the ratio remains below previous peaks. In Ireland and the Netherlands, on the other hand, warning sirens should have been blaring as the ratio

has hit new highs. At the other extreme, German house prices have fallen by 35% relative to income since 1980. At some time over the coming years German prices are likely to make up some of that lost ground.



However, even if the American and British markets as a whole do not appear significantly overvalued, there is mounting evidence of house-price bubbles in some big cities. In London the house-price-to-income ratio is perilously close to its 1988 peak.

Ian Morris at HSBC, a bank, calculates that the ratio of house prices to income is still well below the late 1980s peak in New York, but prices in Washington, DC, and San Francisco are approaching dangerous levels, especially for properties at the top end of the market. As Silicon Valley's fortunes have slumped, prices in that region have started to slide.

You might have expected the early 1990s house-price crash to have made homebuyers wary. Yet once again rising prices are tempting buyers to borrow up to the hilt in order to invest in a bigger home or a second property. The biggest immediate risk to the housing market would be if interest rates rose sharply, as in the early 1990s, choking off new demand. Yet with few signs that inflation is about to take off, that seems unlikely. If interest rates rise only modestly over the next year, house prices in most countries are likely to continue to rise, albeit at a slower pace, encouraging even more borrowing.

If so, when interest rates do eventually rise, house prices will be even higher and households will be burdened with even heavier debts. Our house-price index will help map this economically vital balance between debt, prices and inflation.

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* "Comparing Wealth Effects: The Stockmarket versus the Housing Market" by K. Case, J. Quigley and R. Shiller. NBER working paper 8606.

Among the many sources used in this article are: BIS, OFHEO, Japan Real Estate Institute, Nationwide Building Society, Bulwien, Compagnie des Notaires de Paris, Nomisma, ESRI, Bouwfonds, NVM, ABN-Amro, Stadim, Knight Frank, Gruppo Studio Attici, RE/MAX Excellence Realty, and PricewaterhouseCoopers.

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Corporate profits

Not out of the woods yet

Mar 28th 2002
From The Economist print edition

Profits are starting to turn up. But America's stockmarket is likely to disappoint

WITH signs of economic recovery all around, economists are scrambling to revise their growth forecasts. The average prediction for GDP growth in America in 2002, in *The Economist*'s poll of forecasters, jumped from 0.6% in December to 1.7% in March. Many economists reckon that growth over the year to the fourth quarter of 2002 could reach 3-4%. This is prompting analysts to lift their profit numbers too. They still need to learn patience.

New figures due to be released by America's Department of Commerce on March 28th were widely expected to show that profits, as measured in the national accounts, rose in the fourth quarter of 2001 for the first time in more than a year. That would still leave them sharply down on a year ago. The 22% slump in profits in the year to the third quarter was the biggest decline since the 1930s.

In the mildest recession since the second world war, it is remarkable that profits slumped so sharply. One reason is that, although real GDP barely fell, nominal GDP (the total money value of all spending) saw by far the weakest growth of the past six recessions. Corporate profits tend to be more closely linked to nominal GDP.

The boom in profits in the mid-1990s is now a distant memory. Yet it fuelled expectations that such growth would continue forever. This pushed up share prices, and encouraged firms to borrow and invest heavily. When profit margins shrank in the late 1990s, firms realised they had overinvested. They slashed investment and shareholders suffered big losses.

Investors now like to blame their losses on widespread Enron-style “creative accounting” that concealed companies' true financial health. However, if they had bothered for a moment to look at the government's national-accounts data on profits rather than blindly accepting everything that firms and analysts told them, they would perhaps have heard alarm bells long ago.

National-accounts profits are based largely on tax returns rather than firms' reported profits. They cover the whole economy and use less questionable accounting principles. For example, unlike reported profits, they treat employees' stock options as an expense, when they are exercised—just like wage costs. According to an analysis by Dresdner Kleinwort Wasserstein, the national-accounts measure of profits closely tracked operating profits reported by firms until 1997. Then a huge gap started to open up (see chart). This should have been read as a signal that something fishy was going on. The divergence remains: while national-accounts profits may have bottomed, operating profits could fall for another quarter.

Now that the slide in profits has halted, what about the rebound? In the past, a sharp fall in profits has often been followed by a sharp recovery. Bruce Kasman, an economist at J.P. Morgan, calculates that profits have risen by an average of almost 40% in the first year of the past five economic recoveries. But nominal GDP also then grew much more rapidly than is likely over the coming year. According to First Call, a research firm, analysts are currently forecasting a 17% rise in the operating profits of S&P500 companies this year. That is ambitious, to say the least: it implies

that profits in the fourth quarter of 2002 will be more than 40% higher than they were in the same period of 2001.

The market is likely to be disappointed. Profits will certainly rebound as GDP revives, but more modestly. Productivity growth usually accelerates in the first year of an expansion, because firms are slow to hire new labour. This helps to trim unit labour costs, and so to boost margins, at the same time as the volume of sales grows. Moreover, there is now firmer evidence that some of the productivity gains seen in the second half of the 1990s are sustainable and not just a temporary product of the bubble. Salomon Smith Barney estimates that, since the economy began to slow in mid-2000, productivity growth in the non-farm business sector has averaged an annualised 2%. In previous recessions over the past 30 years productivity fell by an average annual rate of 1%.

However, faster productivity growth does not automatically ensure faster growth in profits. Information technology (IT) allows firms to cut costs, but it also forces them to pass those savings to consumers. That is because IT and deregulation have increased competition by lowering barriers to entry and by making it easier for consumers to compare prices on the Internet. That, along with overcapacity in many industries, has eroded firms' pricing power, squeezing profit margins as a share of GDP to their lowest in 30 years. Even with a robust economic recovery, margins will stay under pressure assuming spare capacity persists for some while.

Martin Barnes at the *Bank Credit Analyst*, a Canadian journal, forecasts that national-account profits will rise by only 10% in the 12 months to the fourth quarter of 2002. Allowing for accounting differences, this implies a rise in S&P500 companies' operating profits of around 20%—just half the 40% expected by the markets. And, looking beyond this year, he predicts that profits growth will be much slower than expected, broadly in line with nominal GDP growth of 5% a year.

Plugging in his profit forecasts, Mr Barnes calculates that the average price-earnings ratio for S&P500 companies, based on five-year forward profits, stands at 19. Compared with the 50-year average of 11, this leaves share prices still alarmingly overvalued.

The American economy may be on the road to recovery, but for many company bosses and stockmarket investors the next few years will be a hard slog.

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About sponsorship

Argentina's banks

Countdown to disaster

Mar 28th 2002 | BUENOS AIRES
From The Economist print edition

Little may soon remain of Argentina's banking system

Get article background

MONEY is flying out of Argentina's banks despite the *corralito*—the freezing of deposits, whose imposition late last year helped trigger bloody protests which eventually brought down the government. This is partly because, to appease the angry crowds, the new government of President Eduardo Duhalde loosened the freeze last month. But mainly it is because Mr Duhalde has picked a fight with the judiciary over the measures.

The courts, apparently out of revenge, have supported tens of thousands of depositors, overruling the *corralito* and instructing the banks to repay depositors immediately, in full. With the banks reportedly losing up to $300m a week from these judgments, the central bank has been printing money to provide them with liquidity, while also burning up its dollar reserves in a vain attempt to stop the peso from plunging.

What will happen next? Hyperinflation, if the central bank keeps printing ever-depreciating pesos to bail out the banks? If it stops, a banking collapse? Or will the IMF come to the rescue, as Mr Duhalde desperately hopes (see article)? Of the banks, only the strongest are likely to survive, greatly reduced in size.

After several changes of plan, the government has forced the banks to turn all their dollar loans into pesos at the old rate of one-for-one, while dollar deposits are converted at 1.4 pesos per dollar. The banks will get government bonds to compensate them for this—worth little since the government has defaulted on its debts. And now, the courts are mostly ordering that dollar depositors be refunded at the current exchange rate (which hit 3.9 pesos per dollar early this week), greatly increasing the banks' losses.

The banks also face a big hit on their existing holdings of government debt, and from soaring defaults by firms and individuals, as the economy implodes. Recent changes to Argentina's bankruptcy laws have greatly increased firms' freedom to keep their creditors at bay, so many are not even trying to meet their loan repayments. Others are in genuine difficulties: this week, MetroGAS (owned by Britain's BG Group and Spain's Repsol) became the first privatised utility to default. It is difficult to come up with hard numbers. But, says Gabriel Caracciolo of Standard & Poor's, a credit-rating agency, the banks' combined $16.5 billion in capital has certainly been more than wiped out.

The extent of insolvency varies among banks: publicly owned ones, with about half the local market, are thought to be deeply under water. Local subsidiaries of foreign banks have much of the rest of the market. Though the foreign banks do not guarantee the deposits of their local offshoots, the government hopes that they will feel obliged to recapitalise them, to preserve their worldwide reputation. Mr Caracciolo doubts this: given how much of a mess the Argentine government has made of things, the foreign banks could simply withdraw, and their customers elsewhere might not blame them.

When Mr Duhalde took over, he hoped the IMF would lend at least $20 billion, some of which would be used to prop up the banking system. With the IMF reluctant to lend until the government closes the gap in its finances, there has recently been talk of creating an independent bank-rescue agency, funded by multi-lateral institutions. Keeping it at arm's length from the government might persuade the foreign banks to recapitalise their local offshoots. But time is running out.

There has recently been talk of creating an independent bank-rescue agency, funded by

Mr Duhalde's economics team also hopes that many bank customers will agree to swap their frozen deposits for government bonds, which they could sell for cash, though at well below face value. This would let the banks shrink their balance sheets neatly. The deadline for depositors to accept the offer is April 15th. So far few have done so.

Things have got so bad that extreme outcomes are imaginable. Mr Duhalde might nationalise the banks (thus giving the foreign banks a fairly honourable exit). Or he could heed those urging him to open up the *corralito* while letting the currency plunge further, and then buy all the liberated peso deposits using a fraction of Argentina's remaining reserves. Or, instead of stumbling towards dollarisation in this way, he could seek to adopt the dollar as the official currency. Each “solution” would cause terrible problems, but so would letting things continue as they are.

The head of the Argentine operations of one European bank says that, although the foreign banks want to stay, their tolerance is close to the limit. The government, besides ruining their business, has made them scapegoats; they even suspect Mr Duhalde's supporters of provoking recent attacks on foreign-bank branches. The best the bank chief hopes for is to maintain some sort of presence, offering a limited range of financial transactions. Deposit-taking and lending will cease, perhaps for years. Most branches will shut.

It took a long time for Argentina to rebuild its financial system after the last crisis, in 1989. Popular trust in banks was partly restored only after Argentina survived the backwash from Mexico's 1995 crisis, and even then, people continued to keep half their deposits abroad. How long will trust take to rebuild this time?

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About sponsorship

Commercial paper

Falling short

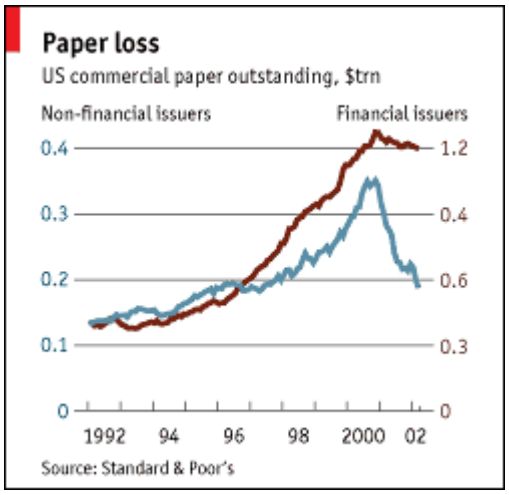
Mar 28th 2002 | NEW YORK
From The Economist print edition

Problems in America's most efficient market for money

TOP-FLIGHT American companies have traditionally been able to raise cheap money at a moment's notice in the commercial-paper market. This offers short-term borrowing, typically for one month, but the term can range from overnight to 270 days. The beauty is, it could be rolled over forever. The buyers of the paper are mostly mutual funds and companies awash with cash.

Banks' underwriting fees for commercial paper are tiny, often just a few hundredths of a percent of the issued amount. And short-term interest rates are, usually, the lowest available.

Despite the attraction for borrowers, the market has fallen apart. In the past year, the amount of commercial paper issued by non-financial companies has declined by a third, the largest contraction in 40 years, according to Standard & Poor's, a credit-rating agency (see chart). The amount issued by financial companies has dropped as well, but less dramatically.



Some of the reasons for the decline are benign. A slow economy has reduced borrowing needs. And companies have been encouraged by cheap medium-term money to stretch their financing. But why pass up the undeniable cost advantage of short-term borrowing? Something else is going on.

It concerns credit risk, which previously loomed small with commercial paper, because the issuers carried high ratings and the maturities were so short. The underlying orthodoxy was that problems did not arise suddenly. Since the Enron debacle, no one is so sure. Investors are holding back and borrowers are giving up the cost advantage of commercial paper, willingly or not, to ensure that they have access to cash for years to come.

Such credit concerns are usually reflected in a higher interest premium. But the commercial-paper market works like a private club with a tough admissions panel. If a company qualifies for the top level, it enjoys all the amenities. The prevailing annualised rate is now 1.75%—half what the American government pays on five-year notes and one-third what top-rated companies pay on long-term bonds. There is an abundance of buyers. Money-market mutual funds, the biggest holders of commercial paper, are required to fill 95% of their portfolios with only “tier-one” securities: those with a top rating from two accredited agencies. This select band of companies is dwindling.

In the past year, downgrades have pushed many blue-chip names out of tier one: AT&T, British Telecommunications, Corning, DaimlerChrysler, Eastman Kodak, Edison International, The Gap, General Motors, Hertz, Motorola, Disney and Weyerhaeuser. A few of these companies have still been able to issue commercial paper as “tier-two” companies, but volume is limited, since mutual funds have restrictions on how much of this they can hold. The demotion of GM and Ford to tier two had a huge impact on the market, because it crowded out other tier-two companies. And earlier this year Tyco fell from tier one to tier three, a level for which there is almost no demand. In the past, banks would agree at little cost to provide back-up lines for commercial-paper issuers in case their access to the market dried up. Today, they tend to provide these only if a borrower presents other, more lucrative, business opportunities. As a result, the real cost of issuing commercial paper is rising.

Moody's, another rating agency, recently examined how 300 large companies would be affected, if they

were shut out of the commercial-paper market. Most disturbing, says Chris Mahoney, head of Moody's credit ratings, was the prevalence of so-called “triggers”, which allowed for any number of credit arrangements to be suspended because of credit-ratings changes. So a company shut out of one market could suffer a devastating knock-on effect as successive obligations came due. Many of these triggers are confidential, which is cold comfort for bondholders.

Even tier-one companies are under severe scrutiny. Bill Gross, a bond-fund manager at Pimco, recently announced that he would cease buying the commercial paper of General Electric, a company rated AAA, because its huge exposure to short-term debt made it doubly vulnerable to investor whims: first, it was at risk during each refinancing; second, it used cheap short-term loans to make long-term acquisitions, which were then revalued at GE's level—a traditional trick of conglomerates. And GE, says Mr Gross, is not alone. On March 25th, responding to concerns that it was over-relying on short-term paper, Verizon, a communications company, issued $1.5 billion in long-term bonds.

At best, some of the most highly rated companies in America may need a review. But more disturbing could be the loss of access to cheap and convenient funding. The ability of American companies steadily to improve their return on equity had much to do with their ability to raise other kinds of capital cheaply, and only when necessary. That era may be coming to an end.

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Andersen

Called to account

Mar 28th 2002 | NEW YORK
From The Economist print edition

Can managerial change save the embattled firm?

Get article background

FACED with defecting partners, a criminal indictment, and an oversight board advocating managerial change, Andersen's chief executive, Joseph Berardino, finally succumbed to the inevitable, resigning on March 26th. But it is far from clear whether his departure hastens the destruction of the troubled firm or provides a chance of survival.

Under Mr Berardino, the firm consistently downplayed the severity and the extent of its problems. In a strategy that abysmally failed, it attacked government regulators investigating Andersen's disastrous relationship with Enron and other audit clients. Clients have stampeded elsewhere.

Although no other approach may serve better, Andersen retains a powerful advantage over other large firms previously prosecuted by financial regulators: the market would benefit from its survival. There is a widespread sentiment that the accounting industry as well as the financial markets would be better off if the tiny group of big auditing firms did not contract further. Under the right circumstances, a restructured Andersen could be a model for how other auditing firms—none of them problem-free—should operate. Numerous obstacles stand in the way. The most important is the sentiment of partners, many of whom are more concerned with securing a release from non-compete agreements—which might limit their ability to serve current clients if they move to another auditing firm—than with saving Andersen.

As *The Economist* went to press, an offer to take over and rehabilitate Andersen had been made by Paul Volcker, a former Federal Reserve chairman who had been brought in as head of an oversight board. Under a temporary structure, Andersen would be run by a committee of seven, including the retired top partners of two big auditing firms as well as Mr Volcker and other prominent industry and government veterans. The offer depended on the quick support of employees and regulators—and especially of the Department of Justice, which has indicted Andersen for destroying Enron-related documents.

Under the Volcker scenario, Andersen would be substantially restructured, returning to its roots as a pure auditing firm. The change would go far beyond anything attempted by Mr Berardino, whose mission was also, ironically, to change the firm. A life-long Andersen employee, he had become chief executive in January 2001 as part of an attempt to rebuild the business after an acrimonious separation with its former consulting unit, now known as Accenture, and a series of botched audits. Mr Berardino settled fraud charges in June with the Securities and Exchange Commission (SEC) for its work during the mid-1990s as auditor of Waste Management, but the issue has not been put to rest. New information on Andersen's shortcomings emerged only this week in a complaint filed by the SEC, charging former Waste Management employees with falsifying earnings.

Mr Berardino tried to belittle Andersen's problems. More realism might have been impossible a year ago; now, it is Andersen's only hope.

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Insurance

Swiss miss

Mar 28th 2002
From The Economist print edition

A battered Zurich Financial Services is returning to its roots

RARELY these days does Zurich Financial Services fail to disappoint. Despite selling $5 billion in assets last year, Rolf Hüppi, the outgoing chief executive of the giant Swiss insurer, had to answer for a net loss of $387m when he recently presented the firm's results for 2001.

Having retracted predictions several times in the past few months, Mr Hüppi did not even dare to give any short-term forecasts, junking the company's target of 10-15% profit growth. He further frustrated analysts and investors by still not naming his successor, who is supposed to take over in the summer. “I feel let down,” says René Locher at Bank Sarasin in Zurich, many of whose clients own Zurich shares.

Last year was admittedly horrendous for the industry, which had to stomach the triple blow of losing billions from falling share prices, an unexpectedly high level of claims in non-life insurance, and the damage done by the September 11th terrorist attacks on America. Yet Zurich's year was much worse than that of its peers: Allianz in Germany or AXA in France. The firm issued four profit warnings, its share price lost three-fifths of its value in the course of the year and senior staff left in droves. Even Mr Hüppi's dauphin, Constantine Iordanou, threw in the towel in December.

Even before September 11th, Mr Hüppi realised radical surgery was needed to revive Zurich's fortunes. He started correcting his biggest strategic errors: the acquisition of two underperforming American fund-managers that operated under Zurich Scudder Investment. In December, Scudder was sold to Deutsche Bank for $2.5 billion. He is also scaling down his three-year-old Internet strategy, which called for an investment of $1 billion and which was supposed to triple Zurich's client base of 35m. One of the strategy's core components, a global online insurance exchange, which cost about $250m, will be shut down and local online exchanges will take over some of its business.

Ironically, Zurich is reverting to the staid Swiss property-and-casualty insurer which it was before Mr Hüppi started empire-building. Zurich renamed its reinsurance-arm Converium and floated it publicly in December. It also shed most of its stake in Balôise, a Swiss insurer, abandoning plans for a takeover. On March 25th, it sold Zurich Afore, its Mexican pension-fund business. The next day, it announced the sale of its operations in Central Europe to Generali, an Italian insurer. Even so, it will take time for Zurich to restore itself, and opinions diverge on its success so far. Equity analysts at Goldman Sachs said this week they are “very positive” about the company. Their equivalents at Commerzbank even upgraded Zurich's rating to “buy”. “In three years Zurich will be lauded,” says Christopher Hitchings at Commerzbank.

Rating agencies are more cautious, possibly still reeling from the bankruptcy of Independent Insurance, which took them by surprise. Moody's has placed its rating of Zurich on review for a possible downgrade. It recently downgraded Farmers Insurance Exchange, an American subsidiary of Zurich.

The rating agencies are worried about the state of Zurich's reserves. Before Mr Hüppi embarked on his acquisition spree, Zurich was one of the best-reserved insurers worldwide. Today its reserve ratio—a key measure for an insurer's safety cushion that is obtained by dividing non-life reserves by non-life premiums—dropped to 120% from 160% at the end of 1999, well below the industry average. Zurich's next chief executive will have a job restoring investor confidence. A nominating committee (minus Mr

Hüppi who dropped out last week) is expected to decide between the firm's two chief operating officers, Peter Eckert, a company veteran, and James Schiro, an American who joined the firm this month, by the time of Zurich's AGM on May 16th. But two former bankers at UBS, Mathis Cabiallavetta, who was chairman, and Luqman Arnold, who was executive president, have also been mentioned. “We hope Mr Eckert will be the new chief executive,” says Mr Locher at Bank Sarasin.

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Economics focus

The African exception

Mar 28th 2002
From The Economist print edition

Experience in one sub-Saharan country shows that overseas aid is not the only prerequisite for growth

WHICH country has had the fastest growth in income per person over the past 35 years? A few hints: it's not an East Asian “tiger”, such as South Korea or Singapore, nor an oil-rich Gulf state, nor China or the United States. The answer is Botswana, a landlocked former British colony in a region marked by poverty.

Recently, some of its neighbours seem at last to have found new friends in the rich world. After this month's conference in Monterrey, Mexico, both Europe and America made fresh promises of billions of dollars in aid to poor countries. Even George Bush, a sceptic about foreign aid, has agreed to increase it, if only for countries with sound economic policies.

Development economists often speak blithely of good “institutions” and wise “policies”. This is easily said in Washington. But where is the evidence that good government leads to economic growth, in Africa or anywhere else? For example, Harvard University's Robert Barro has argued that there has been no post-war correlation between democracy and income.

Botswana serves as a useful case study in getting the details right. Sadly, this defies simple prescriptions. Some on the political left might attribute Botswana's success to egalitarianism. Not quite: inequality there is as severe as it is in Colombia or Brazil. Those on the right would like to point to a laisser-faire regime. Wrong again: the government spends a hefty 40% of GDP.

In two recent papers, Daron Acemoglu and Simon Johnson of MIT and James Robinson of the University of California, Berkeley, delve deep to find the secrets of Botswana's success and Africa's failures. In many African countries, such as Congo and Sierra Leone, gems and other natural resources seem to be the root of all evil. Easily plucked from the riverbeds, they fuel countless civil wars. In one study*, the authors argue that in Botswana, valuable minerals have had benign effects: diamonds enriched the elite enough to discourage further “rent-seeking”.

Another paper† points, perhaps unsurprisingly, to “institutions of private property” as a cause of success. But the paper turns to history for explanation. The harder it was for Europeans to settle a region, the greater the culture of exploitation created: finding a foreign land hard to settle, colonists preferred to exploit the natives from afar, rather than to build wealth. By looking at mortality rates of pioneering soldiers, sailors and bishops, the authors found a strong correlation between colonists' death rates and modern measures of political risk and expropriation. Indeed, the authors estimate that these shortcomings account for nearly all the income gap between Africa and rich countries.

Though the model works well for most countries, Botswana offered a surprise. British colonialists left the country pretty much to its own devices, seeing it merely as a buffer zone against Germans and Boers. One would thus expect more expropriation rather than less. Even so, Botswana did far better than the authors' equations would predict, leading them to dig deeper.

They first examined Botswana's history before the colonists. The country's tribal politics made dissent easy, giving commoners a voice against the king. Cattle were privately owned, with wealth spread across the rural population, not concentrated in cities. The country was ethnically homogenous. Fortunate facts all, but hardly a guide for other places with weaker checks on leaders. A more pressing question is how to build institutions even when history is not on your side.

Perhaps more telling is the way the interests of the elite have been harnessed to good effect. At

independence in 1966, Botswana had two schools and few roads. Perhaps Britain's most valuable legacies, besides the English language, were the law and contract procedures. Botswana's politics have developed along the lines of a single dominant ruling party, closer to Japan's pre-recession LDP than to Europe's ideas of multi-party democracy. But minority parties do exert pressure.

Wealthy and secure, the elite pursued sensible policies, such as a customs union with South Africa, and a currency pegged to the rand. The country never tried to oust most of its expatriate labour as some other countries did. Foreign mining companies were welcomed, and the country dealt with them fairly but firmly: it even renegotiated its contract with South Africa's diamond giant De Beers when it realised the scale of its reserves.

The worm in the bud

Botswana's experience suggests that poor countries must try to align the incentives of the elite with those of the masses, much as companies in rich countries try to tie managers' rewards to those of shareholders. It also backs the view of Hernando de Soto, a Peruvian economist, who has proposed a stronger approach to land titling in poor countries. Where countries receive aid, Botswana's experience suggests that profitable goals include better courts and legal systems; and that one good use of cash is to fight diseases.

Disease is Botswana's greatest problem. Around 30% of its adults are infected with HIV, the virus that causes AIDS. Can good governance help here? Perhaps: Botswana's diamond wealth is being put to good use, including free AIDS drugs to anyone in need.

One lesson from Botswana is that history shapes countries. Another is that good management is at the centre of growth, and that the rule of law is as important as are the laws of economics.

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* “An African Success Story: Botswana”, by Daron Acemoglu, Simon Johnson and James A. Robinson. CEPR Discussion Paper 3219, February 2002.

† “The Colonial Origins of Comparative Development”, by Daron Acemoglu, Simon Johnson and James A. Robinson. *American Economic Review*. December 2001.

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Ethics and archaeology

Can you dig it?

Mar 28th 2002
From The Economist print edition

The growing importance of ethical considerations is transforming archaeology

THE first-world-war battlefields of Belgium and France are dangerous places where, even today, unexploded shells lurk, making excavation a potentially lethal activity. But as archaeologists pick up their trowels, they must consider more than their personal safety. For the trenches, dugouts and tunnels—many containing human remains and personal belongings—are ethical minefields too. In a paper in this month's *Antiquity*, Nicholas Saunders, an anthropologist at University College, London, says that archaeologists on these battlefields face a concentration of all the issues that have concerned archaeology in the past ten to 15 years.

These ethical concerns fall into three broad areas. First, there is the question of how to treat human remains. Over the past few years, archaeologists have often come into conflict with indigenous peoples over the custody and handling of excavated human remains. In Belgium and France the situation is particularly complex because the allied armies included soldiers from a variety of faiths and ethnicities, including Africans, Indians, Australians and Native Americans, all of whose traditions may prefer to treat remains differently.

Next is the question of ownership of artefacts. In the case of first-world-war sites, local people armed with metal detectors routinely collect medals and other memorabilia. The sale of such items, says Dr Saunders, has provided an important source of income ever since refugees first returned to the area after the conflict. Archaeologists, though, regard such activities as looting. Around the world, the general question of who has the first claim on buried items—local people, the descendants of the original owners or archaeologists—is deeply controversial.

A third ethical problem concerns the preservation of sites. Should battlefields be left alone as memorials, redeveloped for tourism, or preserved for the archaeologists of the future? Archaeologists increasingly consider the third option: in recent years, they have become more selective about what and where they dig, so that they do not preclude investigations by subsequent generations.

In short, archaeologists' investigations frequently pit their interests against those of other people, and the concerns of the present against the possible concerns of the future. As ethical considerations come to matter more, there has been a change in the way the public sees archaeologists, and the way archaeologists see themselves. “We went through a period when we thought ‘Hey, we're scientists, we should be the number one priority here',” says William Lipe, an archaeologist at Washington State University in Pullman. “But most of us have now come to see it differently.”

Archaeology is now changing dramatically, says Karen Vitelli, an archaeologist at Indiana University. Dr Vitelli also chairs the ethics committee of the Society for American Archaeology (SAA) and is editor of a forthcoming book on archaeological ethics. She was one of the first archaeologists to integrate the study of ethics into archaeological training, and it has now, she says, become a standard part of many degree courses. At the same time, archaeological societies around the world (including the SAA) have adopted codes of ethics to regulate their members. What has brought about this transformation?

Skeletons in the closet

Ethics and archaeology began to collide relatively recently. The modern discipline traces its roots back to the gentleman amateurs of the early 19th century, who brought statues, columns, mummies and trinkets back as souvenirs from their travels around the Mediterranean. Subsequent generations of archaeologists have tended to regard men such as Giovanni Belzoni—a one-time circus strong-man who shipped Egyptian antiquities back to the British Museum in London—as little better than tomb-robbers.

Belzoni was the first European to enter the temple at Abu Simbel. He rediscovered the entrance to the Great Pyramid and found five tombs in the Valley of the Kings, including that of Seti I. An excerpt from his best selling book of 1820 gives a flavour of the antiquarian practices of the time:

> Surrounded by bodies, by heaps of mummies in all directions; which previous to my being accustomed to the sight, impressed me with horror. . . I was choked with mummies, and I could not pass without putting my face in contact with that of some decayed Egyptian; but as the passage inclined downwards, my own weight helped me on; however, I could not help being covered with bones, legs, arms and heads rolling from above. Thus I proceeded from one cave to another, all full of mummies piled in various ways, some standing, some lying, some piled on their heads. The purpose of my researches was to rob the Egyptians of their papyri; of which I found a few hidden in their breasts, under their arms, above their knees, or on the legs, and covered by the numerous folds of cloth that envelop the mummy.

By the early 20th century, however, archaeologists had begun to adopt the methodology of science. Increasing emphasis was placed on the accurate measurement and description of sites and publication of results in archaeological journals. Technological advances—such as the advent of radiocarbon dating—led to further refinements, and the “new archaeology” movement of the 1960s promoted quantitative methods such as statistical analysis. The transformation of archaeology, from tomb-robbing by amateurs into a coherent scientific discipline, was complete.

Paradoxically, the ethical arguments over the treatment of human remains, the ownership of artefacts and responsibility to future generations, all stem in part from archaeology's new-found scientific authority. Having eschewed their dubious forebears, archaeologists reinvented themselves as respectable scientists in search of truth. Who could argue with that?

Bones of contention

Plenty of people, it turned out. Archaeologists' most public conflicts have been with indigenous peoples over the appropriate treatment of human remains. The most infamous example is that of Kennewick

Man, a 9,300-year-old skeleton found in 1996 in a riverbank near the town of Kennewick in Washington state. Intriguingly, its skeletal characteristics are very different from those of modern Native Americans, making Kennewick Man of particular interest to archaeologists trying to understand the peopling of the Americas.

Five Native American tribes, however, claim Kennewick Man as an ancestor under the provisions of the Native American Graves Protection and Repatriation Act (NAGPRA). This law was passed in 1990 to allow Native Americans to remove ancestors' bones, and objects associated with burials and religious practice, from museum collections. A legal battle has rumbled ever since. Granting the remains of Kennewick Man to the Native Americans would deny archaeologists access to an important source of information; but granting them to the scientists would amount to a direct repudiation of the Native Americans' oral history, which is thought to go back 10,000 years.

The passing of NAGPRA demonstrated that science's authority over the dead is not absolute. However scientifically respectable their methods, archaeologists have been forced to acknowledge that they do not operate in a vacuum, and must take the values of others into account, not least because they will otherwise be denied access to important data. Attitudes are changing as a result. Dr Vitelli says that several of her students who are studying bioanthropology, which involves the examination of skeletal remains, are now questioning whether they want to continue in that field, for both ethical and practical reasons.

However scientifically respectable their methods, archaeologists must take the values of others into account

Kennewick Man, and other similar cases, are not entirely representative. In some cases, indigenous peoples and archaeologists have co-operated and reached compromises. Donald Ryan, an archaeologist at Pacific Lutheran University in Tacoma, Washington, gives one example of how things are changing. Working with Egyptian archaeologists, he excavated six tombs in the Valley of the Kings during the 1990s, including one previously explored by Belzoni. Once their work was complete, the archaeologists cleaned up the tombs, many of which had been ravaged by floods and looting. They placed the mummies in new wooden boxes and sealed the entrances. As a result, says Dr Ryan, it was felt that a bit of order and dignity had been restored.

Before they break ground, archaeologists should talk to local people and try to identify areas where their interests coincide, suggests Dr Vitelli. “It's very hard for many of us, since it means giving up control and authority,” she says.

Artefacts on eBay

Another area where archaeologists have invoked their scientific authority is to take a firm stand against looting. Looters irretrievably destroy evidence about the context in which artefacts are found, even if the artefacts are subsequently recovered. Similarly, archaeologists have spoken out against the trade in antiquities. Ancient artefacts sold as *objets d'art* fetch high prices and thus provide an incentive for looters—who are armed and violent in some cases.

In addition to the damage and loss of context caused by looting, private ownership of artefacts can prevent archaeologists from gaining access for research purposes. It may also prevent future archaeologists from verifying previous findings. This, notes Mark Lynott, an archaeologist at the National Park Service's Midwest Archaeological Centre in Lincoln, Nebraska, is vital if archaeology is to be truly scientific. To avoid appearing either unscientific or complicit with the activities of looters, many archaeologists choose deliberately to ignore data from objects in private collections—whatever their significance. Archaeologists remain divided over how museums should acquire and display ancient artefacts of uncertain provenance, for fear that this might encourage looters.

A recent twist to the antiquities trade has come with the advent of Internet auction houses such as eBay. A number of archaeological societies, including the SAA and the Archaeological Institute of America, have asked online auction houses to outlaw the trading of antiquities, to little effect. The problem with policing this trade is that many items have been in private hands for decades, or even centuries, and were originally acquired under very different circumstances. As it is not possible to put the objects back into the ground, says Dr Vitelli, the trading of these items is tolerated. But this provides a loophole for unscrupulous dealers: even though many countries now strictly control the export of antiquities, dealers can simply claim that an item is from an old private collection.

In February, Frederick Schultz, an antiquities dealer, was found guilty by a New York court of conspiring to receive stolen Egyptian antiquities. Mr Schultz claimed that the items he was offering for sale came from the 1920s collection of an Englishman called Thomas Alcock. The US Attorney's Office concluded that “the evidence at trial established that the ‘Thomas Alcock Collection' was a complete fiction.” Mr Schultz has launched an appeal.

This case, though, has heartened archaeologists. The fact that a New York court was prepared to uphold an Egyptian patrimony law banning the trade in antiquities unearthed since 1983 is seen as an important victory for opponents of antiquities trading. Furthermore, says Dr Lynott, the discussion over the ethics of trading antiquities has started to change attitudes. The debate has marginalised the people who are willing to engage in such trade. Even so, says Dr Vitelli, it is not clear that archaeologists' opposition to antiquities trading has helped to save sites or to diminish looting.

Moreover, when it comes to the provenance of antiquities, archaeologists themselves are not always standing on terribly firm ethical ground. Many of the items in museums today were, after all, removed by people like Belzoni. “I look at objects in the British Museum, think about how they were removed, and think that's really horrible,” says Dr Lynott. “But had they not been removed at that time, they might not be available for study today.”

Belzoni was working within the laws of the period. And at the time he was plundering the Valley of the Kings, local Egyptians were merrily using mummies as firewood. The dilemma for archaeology is that carting off artefacts for display in museums on the other side of the world smacks of cultural imperialism; but so does demanding that indigenous people treat artefacts in a way that western archaeologists approve of.

Between past and future

Alongside the debates over the handling of human remains and artefacts, archaeologists have also been grappling with their responsibilities to future practitioners of their science. A central paradox of archaeology is that discovery involves destruction; investigation requires intrusion. Where should archaeologists draw the line when deciding how much of an important site to excavate, if they are not to hinder future investigations?

If the field is scientifically healthy, says Dr Lipe, archaeologists will ask new questions in future and have better methods. Dr Lipe is one of the pioneers of the “conservation model” of archaeology. This is a logical outgrowth of the new archaeology movement of the 1960s, and stresses the careful, well justified and frugal use of archaeological resources, in contrast to the exhaustive excavation of important sites.

Most archaeologists, says Dr Lipe, have had the experience of trying to discover something new about a site that was completely excavated—only to find that the question they wanted to ask had not occurred to the original archaeologists. The intellectual health of the field, he says, depends on being able to address new questions or readdress old ones. “Archaeologists must be conservative in how they themselves use the archaeological record, as a matter of ethics.”

This approach has been bolstered by the advent of non-destructive geophysical surveying techniques—such as ground-penetrating radar—that enable archaeologists to identify and target small areas of interest. Progress in analytical techniques also means that archaeologists can learn a great deal from small amounts of material, provided it is carefully chosen. The result is a move away from the complete excavation of sites towards a more selective, sampling approach.

Belzoni's last laugh

It is deeply ironic that it has taken so long for archaeologists, investigators of the relics of the past, to recognise that archaeological standards, too, are products of their time. Dr Lynott says these are changing almost from year to year. Changing values mean that every generation of archaeologists inevitably regards its predecessors as crude and insensitive. “We see this looking back just a generation or two—we don't have to go back as far as Belzoni,” he says.

Future archaeologists may be less critical of Belzoni. Dr Ryan believes Belzoni has been unfairly vilified. He points out that Belzoni went to the trouble of making detailed measurements, drawings and maps of

the tombs he found, which was more than most of his contemporaries did. In a period when there were no archaeological standards whatsoever, Dr Ryan argues, Belzoni was not merely a man of his time, he was far ahead of it.

Today, archaeology is in the midst of a second metamorphosis. Having transformed itself internally—into a science—it is now being reshaped by external social, cultural and political forces. But it is still a work in progress. “What we're seeing now is the emergence of additional voices that have legitimate claims on what is done to and with the archaeological record,” says Dr Lipe. Dr Vitelli, meanwhile, insists that her students regard the current debate as a chance to reinvent archaeology. For example, the investigation of first-world-war battlefields (which have yet to receive much attention from professional archaeologists) offers a chance to develop new approaches in which the interests of all parties are taken into account. Such battlefields are unique, notes Dr Saunders, because they provide an opportunity to perform archaeological investigations within the context of an abundance of historical documents—personal letters, diaries, maps, photographs and military records. “We have an opportunity here to create a new kind of archaeology—to make it anthropologically informed from the beginning,” he says.

Double standards abound, however. Dr Saunders' suggestion in 1999 that soldiers' remains and artefacts on first-world-war battlefields should be treated in the same way as those of Australian Aborigines or Native Americans was, he says, initially greeted with bewilderment. But things are starting to change. Already, there are signs of compromises between professional archaeologists, and amateur investigators and relic collectors.

Today, amateurs acknowledge the need to seek respectable backing. One amateur group, known as The Diggers, began investigating battlefields near Ypres in 1992. Its members do not claim to be professionals, but the group operates under a licence from Belgium's institute of national archaeology, works with a local museum, and deals with human remains in conjunction with the Commonwealth War Graves Commission.

Widespread public enthusiasm for all things archaeological—another relatively recent development—also gives archaeologists cause for optimism about the future. To illustrate how much things have changed during the course of her career, Dr Vitelli gives the example of the Franchthi Cave in southern Greece, a site with deposits spanning the period from 30,000BC to 3,000BC. Dr Vitelli worked at the site during the 1970s and, 30 years later, having become involved in archaeological ethics, she returned to the local village of Koilada and offered to give a talk about what had been found. The mayor approved and Dr Vitelli ended up speaking to a packed house in the village school.

“It was standing room only: priests, teachers, schoolchildren. They stayed for an hour-long talk in 98-degree heat,” she says. “They were interested in learning about us and why we came to their village. The mayor realised they weren't ready for it 30 years ago. And neither were we. And now we all are.”

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About sponsorship

Margaret Thatcher

Like love to hatred turned

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From The Economist print edition

PA

Lady Thatcher's fiery anti-Europeanism has turned her new book from a stately memoir into a polemic

THE best way to think about “Statecraft” is as a travel book. And, as with the best of them, it is about two kinds of journey—the physical and the intellectual. Since her dramatic ejection from the leadership of her party and the country in 1990, Margaret Thatcher has been indefatigable—never happier than when picking up an award or delivering a lecture on how she and Ronald Reagan (to whom this work is rather touchingly dedicated) fought and won the battle to save the world from Communism. Her recent decision to quit public speaking is an indication of how much of a toll this punishing self-imposed schedule must have taken on her.

If “Statecraft” were just collected anecdotes, it would, even allowing for Lady Thatcher's characteristic spikiness, be the book that retired statesmen are supposed to write. But Lady Thatcher has more to say. Proud as she is of her record as a cold warrior, she is riven with guilt about her part in drawing Britain into an ever-closer relationship with the European Union.

Statecraft: Strategies for a Changing World
By Margaret Thatcher

HarperCollins; 486 pages; $34.95 and £25

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Lady Thatcher has not hidden her mounting revulsion for Europe during the last decade, but the extent of her current apostasy is breathtaking. This is, after all, someone who was happy to serve in Ted Heath's cabinet when the arch-Europhile negotiated the terms of Britain's entry into the then EEC, who, as prime minister, appointed a succession of Euro-enthusiastic foreign secretaries, signed up to the Single European Act in 1986 and who, during her last weeks in power, took sterling into the exchange-rate mechanism.

The former premier feels so terrible about all this that she devotes about 100 pages to explaining how she could have got it so horribly wrong and why there is no hope for Britain unless a future Conservative government has the courage to pull out of a project that is not only doomed but fundamentally hostile to Britain's national interest. Much of what she has to say relies quite recklessly on half-truths. The opening paragraph of the chapter entitled “Europe—Dreams and Nightmares” states: “During my lifetime most of the problems the world has faced have come, in one fashion or another, from mainland Europe, and the solutions from outside it.” Yet the Common Market was an intended solution to those very problems.

Her reason for why her government signed the 1986 act she now regards as worthless—which substantially deepened integration in the cause of establishing a barrier-free internal market—is that she was duped by her ministers and the conniving Europeans. “We can see that any concessions which Britain makes or initiatives which she promotes in Europe are always eventually turned against her and against the original intention,” she says.

There is further *chutzpah* in her insistence that Britain's economic interests would not be damaged, or not much, were we to quit Europe. The current high rate of inward investment, she asserts, would be unaffected because it is our low costs and flexibility that is the magnet rather than our access to the European market. Most people might think it is the combination of all those things that impresses American and Japanese companies. Although she lambasts the EU for its inherent protectionist tendencies (with some justice, it has to be admitted), she is quite certain that there would be no adverse consequences for British trade if we were to abrogate all our treaties with Europe and join NAFTA. They need us much more than we need them, she says.

Hostile though today's Tory party is to much that goes on in the EU, there are only a handful of ultras who would be willing to take the argument to Lady Thatcher's logical conclusion of advocating withdrawal. To that extent, this cry of anguish can only be politically irritating—it is neither in Iain Duncan Smith's interests to embrace nor publicly disown her as he struggles to reinvent his party. There is an element of tragedy in all of this. It is tragic that a great prime minister feels such disgust for much that her government did. It is equally tragic in the eyes of many who admired her achievements in office that she is in danger of becoming like one of those deranged people who shuffle along the street shouting angrily at everything around them while passers-by turn away in embarrassment. No doubt she will continue to vent her fury in print. That she will no longer occupy a public stage should, however, be a relief both to the party and to anyone who cares for her reputation.

Statecraft: Strategies for a Changing World.
By Margaret Thatcher.
HarperCollins; 486 pages; $34.95 and £25

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About sponsorship

Growth and aid

Aiding and abetting

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A REFRESHING, iconoclastic book, “The Elusive Quest for Growth” is all the more remarkable because, although written from within the World Bank, it is highly critical of policies which the bank—and the IMF—have long pursued. There is also a fair bit of *mea culpa* here, another quality in short supply at the World Bank. The book is primarily about efforts in the past 50 years to move third-world countries on to a path to faster growth.

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics
By William Easterly

MIT Press (2001); 400 pages; $29.95 and £20.95

Buy it at
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Mr Easterly opens by demolishing some of the conventional wisdom on growth. Walt Rostow, an influential economic historian, declared in “The Stages of Economic Growth” (1960) that investment is crucial for a take-off into sustained growth, a view now known as capital fundamentalism. Yet research has shown that countries can invest without growing much, and grow without investing much.

The same goes for human capital. Like investment, it will in the right conditions help growth, but many countries have built it up without seeing much of a pay-off. The list continues. Only get population growth down and all manner of good things will follow. This is a bit of a straw man. Mr Easterly ranges the extremes against each other, the Malthusians versus the cornucopians, but the mainstream view has been that rapid population growth, though an impediment to development, is not an overwhelming one.

Openness to trade and investment matter more in his view, as does technology. But his main contention is that incentives matter most—to individuals, companies and governments alike. He links this with returns to scale: when physical investments or human capital complement each other, there are scale economies, and also consequences that decision-makers acting alone will not take into account. Otherwise there may just be diminishing returns. This means there is no simple market solution. Governments must get things right, subsidising or co-ordinating economic agents. Most important, though, is not to get things wrong. This applies to international lenders who continue lending to poor countries even as conditions for their loans are disregarded.

The author drily lists aid loans to borrowers that were made on condition that some action or other was taken and which kept on coming even when the actions did not. In 1979-96, Kenya had 19 different loans, frequently with railway reform as a condition. The reform has still not happened. The institutions' behaviour helped to create the wrong incentives.

The main fault is that Mr Easterly, rather like the bank itself, relies too much on cross-country statistical comparisons. The truth is messier; specific to each country's time and place. Perhaps even more *mea culpa* might have been in order. Mr Easterly was himself involved in Ghana's structural adjustment programme, which began in 1984. It did all the right things with a lot of World Bank money, yet it has not been the success story many have claimed. With annual per capita income at around $400, Ghana is still down there with Haiti and Mauritania.

Elusive quest indeed. Recipes for growth which have worked, such as the successful marriage between business and government that helped the East Asian tigers, may also contain the seeds of downfall. Skilfully directed credit can turn into crony capitalism. Countries simply have to get things right, to respond to changing conditions. And, as Mr Easterly stresses, they need a certain amount of luck.

Covering such wide territory, he inevitably misses, too, some relevant research: for example, “Foreign

Aid and Development" edited by Finn Tarp (Routledge, 2001), which criticises the bank's own assessments of aid, and gives aid generally a more positive report than Mr Easterly allows. Nevertheless, for anyone in the development community, "The Elusive Quest for Growth" is a terrific book. Those who read it will put it down chastened, instructed and entertained.

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics.
By William Easterly.
MIT Press (2001); 400 pages; $29.95 and £20.95

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About sponsorship

Boxing

Champs and chumps

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From The Economist print edition

BOXING, according to both these books, is on the ropes. The number of journeyman fighters, in the amateur as well as the professional ranks, is shrinking fast, and they have to travel ever greater distances in search of fights. The sport's support base is also diminishing. Fans accustomed to undisputed world champions at eight weights cannot cope with the confusion now caused by four different organisations awarding their own titles at unfamiliar weights.

If the authors are right, and the sport really is in terminal decline, North America will marginalise some extraordinary gargoyles, most of them operating on the safe side of the ropes. Men such as Milton LaCroix, the foul-mouthed Puerto Rican trainer whom Robert Anasi turned to when he decided to have a shot at America's foremost amateur tournament, the Golden Gloves.

The trainer was unimpressed as Mr Anasi displayed his prowess at a sparring session in a gym in lower Manhattan. “Did you ever fight before? You did? You fought? And you won? Oh, who did you fight, Stevie Wonder and Ray Charles?” After months of hard work, Mr LaCroix was willing, most reluctantly, to concede that his new charge had made some progress. “When Bob came here, he was quadriplegic. Then he got paraplegic. Now he's just plegic.”

But at least Mr LaCroix had the best interests of his boxers at heart. Which is more than can be said of some of the shifty trainers Mr Anasi came across during his unsuccessful quest for boxing glory, men of a type you see “sauntering out of a pawnshop”. Or of the low-life promoters, managers and agents who have generated their own stereotype: the smooth-talking, stout hustler driving a Lincoln Town Car and wearing sunglasses indoors.

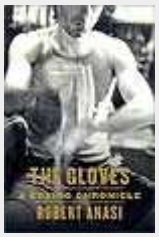
Chris Jones, in contrast, mixed with the top men in boxing as a cub reporter. He was only in his mid-20s but boxing is now such a peripheral sport that his seniors let him cover it for Canada's *National Post*. Like Mr Anasi, he was appalled as much as fascinated by the company he kept. Don King, for instance. At a press conference for the fight for “the unmitigated, unadulterated, undisputed heavyweight championship of the world”, between Lennox Lewis and Evander Holyfield, Mr Jones listened to the shock-haired promoter speak for 76 minutes on the trot. In the course of his hype, Mr King managed to roll in Shakespeare, NATO, Bill Clinton, the Bosnian conflict, a few passages from the Bible, Henry VIII and Henry Kissinger.

Mr Jones also met Bert Sugar, a famously hard-boiled boxing historian, aged anywhere between 60 and 100. Mr Sugar does not need any credentials to get in to see a fight. He is an instantly recognised phenomenon everywhere in boxing—fedora, sunken eyes, bulbous nose, cigar forever stuck into black, wet mouth.

Tactful Mr Sugar is not. Mr Jones overhears him seeking to comfort a young woman who has just learnt of her father's death: “He's dead. D-E-A-D! Dead! Do you hear me? Nothing is going to bring him back. Nothing.” Unlike most of the characters in these two page-turners, he probably meant well.

The Gloves: A Boxing Chronicle.
By Robert Anasi.
North Point Press; 331 pages; $24

The Gloves: A Boxing Chronicle
By Robert Anasi



North Point Press; 331 pages; $24

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Falling Hard: A Rookie's Year in Boxing
By Chris Jones

Arcade Publishing; 208 pages; $23.95. Yellow Jersey Press; £10

Buy it at
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The influence of reading

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FRANCIS SPUFFORD is a fiction addict. Novels have a narcotic effect on this young British critic, and he considers bookshops to be “chemists dispensing an almost universal range of substances.”

Mr Spufford's addiction to fiction started early. His younger sister was born with cystinosis, a rare and serious disease, and much of his parents' attention was consequently directed at her. Jealous and lonely, the young Francis turned to books: with a novel in his hand he became oblivious to anything but the world of the word.

Memoirs about reading run the risk of being old-bufferish and self-indulgent. “The Child That Books Built”, however, is far more than a bookworm's nostalgia trip. Making use of research in cognitive psychology, literary criticism and linguistics, Mr Spufford has tried to understand exactly how the books he read between babyhood and the age of 19 changed the way he thought. He is interested in how fiction's “own onward movement fuses with the accelerated coming-to-be we do in childhood.” To this end, he takes himself as a test case, and attempts to reconstruct the way each book he read “unfolded its particular nature” into his awareness.

The Child That Books Built: A Memoir of Childhood and Reading
By Francis Spufford

Faber and Faber; 214 pages; £12.99

Buy it at Amazon.co.uk

Mr Spufford organises his reading experiences around four icons, each the focus of a chapter. The first is the forest. An archetypal image for the unconscious—“the mind's necessary wilderness”—it features in almost all children's books as a place of danger, abandonment and self-pity. In this chapter, Mr Spufford takes us for a tramp through Mirkwood, one of the forests in “The Lord of the Rings”, and the Wild Wood of Kenneth Grahame's “The Wind in the Willows”. He also discusses the child psychology experiments of Jean Piaget, and the fierce “fairytale wars” which were fought in the 1970s over how fairytales affected children's minds.

After the forest comes the island, which contains an excellent account of C.S. Lewis's life, and the background to his “The Chronicles of Narnia”. The final two chapters are the town and the hole. By this time, Mr Spufford is at boarding school, where he has discovered the metafictions of Jorge Luis Borges and Italo Calvino, as well as Ian Fleming's James Bond books. He recalls his delight at encountering “female pilots who unzipped their flying suits from neck to crotch in one sinuous southward motion.”

The recent successes of “The Lord of the Rings”, the Harry Potter series, and Philip Pullman's trilogy, “His Dark Materials”, remind us of the imaginative power that children's literature wields both over children and adults. Where does that power spring from, though, and what effect does it have on us? In this sophisticated, stylish and beautifully written book, Mr Spufford has come as close as anyone to answering these difficult questions.

The Child That Books Built: A Memoir of Childhood and Reading.
By Francis Spufford.
Faber and Faber; 214 pages; £12.99

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About sponsorship

Islam and slavery

Shades of grey

Mar 28th 2002
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THERE are few examples of cruelty so appalling as the Atlantic slave trade. A rarely noted fact, however, is that the scale of the trade in the lands of Islam was broadly similar. Not only this, but slavery persisted in some Muslim societies well into the 20th century and continues, albeit in a tiny trickle, right up to the present.

Islam's Black Slaves: The Other Black Diaspora
By Ronald Segal

Farrar, Straus and Giroux; 273 pages; $25.
Atlantic Books; £20

Buy it at
Amazon.com
Amazon.co.uk

Such is the message of this odd book, part history, part tract, by Ronald Segal, a seasoned anti-apartheid activist. Yet, as he explains, slavery's moral stain on Islam is not so dark as mere numbers would suggest. An estimated 11.5m African slaves were marched through deserts to the markets of Marrakesh, Tripoli and Cairo, or shipped to the ports of Jeddah, Muscat and Basra, but this movement took place over 1,300 years rather than in the course of a few violent centuries.

Islamic law treated slaves as people, not chattel. They often owned property including, at times, their very own slaves. Manumission of slaves, considered an act of great piety, was common. Slaves seldom worked plantations, but rather were employed as household servants, concubines or soldiers. In numerous instances black slaves, and particularly eunuchs—whose value was up to seven times that of ordinary slaves—rose to positions of great wealth and even kingship.

Whatever mild racism existed was never, as in America, underlain by peculiar taboos against miscegenation. The slave population of pre-modern Muslim cities, which included Turks, Slavs, Javanese and others in addition to Africans, tended to dissolve within a generation into society as a whole. The result is that, despite this book's subtitle, there is no “Black Diaspora” in Islam.

This is not to say that Muslim slavery was benign. The suppression of the Zanj revolt, a ninth-century slave uprising in southern Iraq, took 15 years and cost hundreds of thousands of lives. The transport of captives always took a ghastly toll, and fatally botched castrations were frequent. The worst damage was inflicted on black Africa itself, especially after the introduction of firearms. Although demand for slaves in Arab markets rose little in the 19th century, populations plunged in the Niger basin and the Great Lakes region as tribal chieftains hunted enemies to trade for guns to fend off other enemies.

Mr Segal is good at sketching the historical dynamics. He strays into polemic, however, when describing modern times. He singles out Sudan and Mauritania as places where some slavery persists, but fails to place this in the context of these crushingly poor countries' other evils, including ethnic strife, famine and drought. He swallows Christian Solidarity International's claim that it bought the freedom of 20,000 southern Sudanese slaves, ignoring press reports that the Geneva-based charity was duped by fake slavers who gleefully pocketed dollars to “liberate” bogus slaves. Mr Segal's ire is strongest in a final chapter that attacks America's Nation of Islam movement for ignoring Muslim slaving traditions in favour of anti-Semitic fantasies. The anger is just, but oddly out of place considering that most Muslimsregard Louis Farrakhan as a crackpot.

Islam's Black Slaves: The Other Black Diaspora.
By Ronald Segal.
Farrar, Straus and Giroux; 273 pages; $25.
Atlantic Books; £20

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New American fiction

Celebrity lizards

Mar 28th 2002
From The Economist print edition

TO OBSERVE that Carl Hiaasen's latest Florida romp isn't quite as uproarious as, say, his devastating carve-up of the plastic surgery industry in “Skin Tight” is only by way of praising with faint damnation. Mr Hiaasen's ninth novel, “Basket Case,” takes an affectionate swipe at the pop-music crowd, and a more sincere jab at avaricious media tycoons. As ever, his rambunctious plot is largely a vehicle for snappy dialogue, snide parody and wicked one-liners.

The journalist narrator, Jack Tagger, has insulted the *Union-Register*'s smarmy new owner and been bumped down to the “Death page,” which “recently lost space to the Weather page, which had lost space to the Celebrity Eye page, which had lost space to Horoscopes.” When Tagger begins the obituary of a has-been rock star, Jimmy Stoma, former leader of Jimmy and the Slut Puppies, his widow and fellow singer Cleo Rio's tears over her husband's diving accident are unconvincing. Tagger's investigative instincts are reawakened, and subsequent deaths drive him to declare fervently: “Somebody's killing off the Slut Puppies!”

While probing not so much whether Cleo murdered her husband as why, Mr Hiaasen has great fun with Jimmy Stoma's album titles (“A Painful Burning Sensation”, “Stomatose”) and caustic lyrics (“The girl I chase is a basket case, a bipolar momma in leather and lace!”). Their acerbity seems an appreciative nod to Warren Zevon, who appears in the acknowledgments. Otherwise, the author displays a rueful cynicism about pop music. Cleo's single musical success owes to “flashing pubes” on MTV, and her singing style is drolly pigeon-holed as “angry; wounded, but not hardened.”

Mr Hiaasen's social satire is as offhand as it is compulsive. A marvellous sense of the absurd infuses even routine turns of plot: “A bait truck loaded with finger mullet backed up over the ex-Slut Puppy.” Indeed, it's plausible that “Basket Case” might have been contrived solely to include a scene in which a dead frozen lizard is deployed as a lethal weapon. If so, he succeeds splendidly. Many an author has aimed for less.

Basket Case.
By Carl Hiaasen.
Knopf; 318 pages; $25.95. Macmillan; £10

Basket Case
By Carl Hiaasen

Knopf; 318 pages; $25.95. Macmillan; £10

Buy it at
Amazon.com
Amazon.co.uk

Reuters

Florida pop

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About sponsorship

American lives

Woman of substance

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From The Economist print edition

TO JOHN ADAMS, America's second president, George Washington was a hard act to follow. But his first lady, Abigail Adams (1744-1818), made up for it. She was a passionate believer in the new republic, an advocate of female education, a critic of slavery and a keen observer both of American revolutionary politics and of the social scene in Paris and London, where her husband was posted in the 1780s.

Abigail Adams: A Writing Life
By Edith B. Gelles

Routledge; 224 pages; $19.95

Buy it at
Amazon.com
Amazon.co.uk

All this Edith Gelles relates with clarity and warmth. But her subject is also Adams as mistress of a literary form—a woman, literally, of letters. She was separated from her husband for long periods while she was left alone to manage their Massachusetts farm, and letters were her solace. Indeed, she confessed to a kind of compulsion, to moments of "such an uneasiness, such a restlessness, as neither Company, Books, family Cares will remove, my Pen is my only pleasure."

"Remember the Ladies", she charged John Adams when the Declaration of Independence and a new code of law were in prospect. These words were later taken up by feminists, but Ms Gelles is at pains to remind us of their epistolary origins—written without fanfare, after a "by the way", and followed by a joke. In other words, though her ideas were revolutionary, Abigail Adams was no Mary Wollstonecraft. But it is precisely their privateness, their spontaneity that has made her letters resonate so publicly. Since a grandson published them in 1848, they have never been out of print.

Abigail Adams comes across most vividly, at least to a modern reader, in her gossipy, loose, running-on mode. Writing to her sister in New England, for example, after an evening at the Paris ballet, she exclaimed at the "Girls dressed in the thinest silk: and Gauze, with their peticoats short Springing two feet from the floor, poising themselves in the air, with their feet flying, and as perfectly showing their Garters and Drawers as tho no peticoat had been worn." You can almost hear her shock and excitement on the capitalised words.

But these were grand, rhetorical times, and her language—even to intimates—rises with her sense of history unfolding: "The die is now cast," declared King George III in response to the New Englanders' demands that the "Intolerable Acts", restricting trade should be repealed: "the colonies must either submit or triumph." Abigail Adams, echoing him, wrote to a friend: "The die is cast. Yesterday brought us such a Speach from the Throne", she told a friend in 1775, "as will stain with everlasting infamy the reign of George the 3. The Sword is now our only, yet dreadful alternative, and the fate of Rome will be renewed in Britain." And in a letter to her husband, she described female versus male patriotism in cadences that conjure her as an early Roman matron herself: "in giving [our country] our Sons and Husbands we give more than ourselves. You can only die on the field of Battle, but we have the misfortune to survive those whom we Love most."

Ms Gelles's distinction between the letters as biography and as literature can sometimes be a little forced. Nevertheless, this is a perceptive study and a lively incentive to read the correspondence itself.

Abigail Adams: A Writing Life.
By Edith B. Gelles.
Routledge; 224 pages; $19.95

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Jazz

Crossover man

Mar 28th 2002
From The Economist print edition

Is it classical or is it jazz?

THE story goes that, during the innocent days of the Swing era, an earnest lady approached Fats Waller to enquire, “Mr Waller, what is jazz?” With mock gravity, Waller replied, “Madam, if you have to ask, you'll never know.” These days many listeners would concede the puzzled questioner had a point. It has been a while since jazz was simple and infectious, a swinging music which inspired remarkable feats of improvisation. Now it seems to come in multiple categories: smooth jazz, Latin jazz, acid jazz, jazz funk, jazz rock, free jazz—jazz can seem less a music on its own than a flavouring for other genres.

Consider, for instance, Uri Caine, a pianist-composer. A product of the vigorous Philadelphia musical scene, he is a highly accomplished jazz performer, without a doubt. A recent recording, “Blue Wail” is chock-full of the hard-driving, imaginative playing which has always set jazz fans a-tingle. (This recording, and those mentioned below, are all available on the Winter & Winter label.) Mr Caine, accompanied by bass and drums, attacks a group of original compositions steeped in ear-catching melodies and foot-tapping rhythms, with echoes of bebop and the blues. He even plays two highly original versions of Fats Waller's evergreen, “Honeysuckle Rose”.

Yet Mr Caine has made his main reputation further afield, engaging not jazz standards but monuments of the classical repertoire. In 1996, he startled listeners on both sides of the jazz-classical divide with a CD of themes from Mahler. “Primal Light” featured excerpts from the master's symphonies and song cycles rewritten for a cabaret orchestra, spiced with electronics, improvised solos and vocal textures which recalled Mahler's Jewish heritage.

It was a heady brew and, whatever else one thought, was impressively performed. Mr Caine's Mahler was a reinvention, not a travesty, played with passion, originality and respect. If some critics were bemused, an Italian Mahler festival invited Mr Caine to participate, and his music was rerecorded live (“Gustav Mahler in Toblach”) The audible enthusiasm of the crowd proves this is no mere personal indulgence, and the same reaction greeted another extraordinary Caine project, a selection of music from Wagner operas transcribed for a café ensemble—string quartet, piano and accordion—recorded at a coffee house in the Piazza San Marco in Venice (“Wagner e Venezia”). Here there was no improvisation at all, just a faithful recreation for reduced but committed forces of some of Wagner's most famous orchestral moments. It takes considerable courage to attempt a pared-down “The Ride of the Valkyries”, but musicianship carries the day, along with the buzz of the live San Marco atmosphere, complete with the bells of the Campanile.

Less successful was a later Caine project, reworking Robert Schumann's great song cycle, “Dichterliebe”: its emotional depths did not profit from embroidery by rock-style wailing and twangy guitar (“Love Fugue”). But Mr Caine regained his imaginative touch in what must be his *magnum opus*, a version of Bach's “Goldberg Variations”. Bach's original set of variations is immaculately performed, absolutely straight, by various baroque combinations. But alongside, Mr Caine has fashioned myriad variations of his own, in the spirit of what he calls Bach's playfulness and interest in dance forms. The result is a zestful cornucopia of idioms: jazz styles of all kinds, Latin, rock, electronics, adroit imitations of classical masters, even a quasi-Samurai setting. Again, whatever the style, the playing is first-rate, and Mr Caine's aim is clearly to pay homage to music that he admires and understands.

Latterly, however, he has declared his desire to “get away from doing all these classical pieces” and get back more directly to jazz. And so he has, in three recent CDs. But they still reflect the restless range of his interests and the wide-open state of jazz. “Solitaire” concentrates on original pieces for solo piano, “Bedrock 3” delves into rock-style electronic grooves, and “Rio” distils Mr Caine's visit to the samba culture of Brazil.

In view of such profusion, one wonders what answer Mr Caine might give to the lady who asked Fats Waller to define jazz. Perhaps he would say it combines rhythmic vitality, imaginative engagement and, above all, a personal voice. And sometimes you can even dance to it.

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The Oscars

Mar 28th 2002
From The Economist print edition

Our “fearless” predictions as to who would win the Oscars were right. And wrong. Denzel Washington and Halle Berry both upstaged us as best actor and best actress, but “A Beautiful Mind” came through all right, winning best picture, best director and best supporting actress. Economical though it may be with the truth, and the economics, the film confirmed that love, mathematics and mental health are an unbeatable combination

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Van Tien Dung

Mar 28th 2002
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Van Tien Dung, a peasant who became a general, died on March 17th, aged 85

AP

AN AMERICAN historian, Eugene Grayson, who served in Vietnam as a colonel, reckoned that Van Tien Dung was one of the “great captains” of warfare, ranking with Wellington and Rommel. The campaign that General Dung planned and directed to give the communists a final victory after 30 years of war was, said Mr Grayson in an influential essay, “a classic masterpiece of manoeuvre warfare”. Some people were surprised by this encomium. Asked to name the communists' most famous general, many would award the laurel to Vo Nguyen Giap, who is usually credited with defeating the French at Dien Bien Phu in 1954, sometimes seen as the beginning of the end for western forces in Vietnam. However, General Dung was the youthful number two at Dien Bien Phu and some say was the real brains behind victory. He later succeeded General Giap as army chief.

Nostalgically refighting the battles of long ago is a favourite game of historians. Who was the better general of the second world war, Britain's careful Bernard Montgomery or America's hot-tempered George Patton? Your choice may well be determined by which military historian you have been reading. Vietnam's propagandists once portrayed General Giap as a military genius. Perhaps he was, but with peace wartime heroes became less important. He was removed from the Politburo and for a few years was in charge of family planning, which caused some amusement among irreverent Vietnamese. Probably General Dung made things worse for him with his account of the war published in the party newspaper. While in no way knocking his former boss, he gave himself full credit for the final victory. General Giap, now 91, is rarely seen in public. But last week he put on his dress uniform and attended the state funeral of General Dung, to witness the departure of the man who to some extent had stolen his glory. He declined to say anything about his old colleague. That will probably have to wait for his memoirs.

Life with Ho

As a young man Van Tien Dung never thought of becoming a soldier. Soldiers were men of the French Foreign Legion who kept order for the colonial power. Like many other Vietnamese of peasant stock with little schooling he was recruited into the communist party run by Ho Chi Minh. Just as easily he was picked up by the French and jailed for belonging to an illegal organisation. He spent about four years in jail, often escaping, once as a Buddhist monk, and always recaptured. In 1940 the Japanese occupied Vietnam and other parts of Indochina, but allowed the French to continue their administration of the region. The United States supported Ho's anti-Japanese campaign, and sent a medical team to his jungle hideout to treat him when he was ill with malaria. After the war, Ho hoped that the French, urged on by America, would grant Vietnam independence. The French declined, and the long struggle began, first as guerrilla war and later as a series of clashes between great armies.

How did Dung acquire the training expected of a high-ranking military commander? The communists had no West Point, no Sandhurst. China and Russia were able to offer guerrilla training, but the Vietnamese were nationalists as well as communists, and jealously retained control of their forces, even if it meant promoting men from a non-proletarian background. Some 70% of General Giap's officers, including Giap himself, were from the middle class. He seems to have recognised Dung as a natural leader who had a firm command, despite his lack of formal education, of logistics, which played a key part in the defeat of the French at Dien Bien Phu. Like Napoleon, the two men were prepared to squander any number of lives to win. In one campaign in 1968, the so-called Tet offensive, named after a Vietnamese holiday, General

Giap lost 500,000 men killed by American and South Vietnamese forces. However, even in overpopulated North Vietnam, never short of recruits, such a loss was thought unacceptable and contributed to Giap's loss of support.

For the final offensive of the war General Dung had under his command an army of 800,000 men, the third largest in the world, supported by tanks and aircraft. The Americans had withdrawn from Vietnam after losing 58,000 soldiers and the South was on its own. The United States' “potential for aiding its puppets is rapidly declining”, he told an approving Politburo. Even so, General Dung noted, the southerners were hard to break. It took 55 days of hard pounding to reach Saigon on April 30th 1975.

General Dung never lost his interest in military affairs and took a spectator's view of the interminable wars that have continued around the world. After the attacks on New York and Washington of September 11th and the subsequent war in Afghanistan he gave warning that the United States would encounter the same difficulties experienced by the Soviet Union when it occupied the country, and would find it difficult to withdraw. He was aware that his view was not particularly original, nor would it be welcomed. But who would deprive an old adversary of his mischievous parting shot?

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Overview

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From The Economist print edition

American consumers are in high spirits. Consumer confidence jumped sharply in March to 110.2 from 95.0 in February, according to the Conference Board's index. Consumer confidence is at its highest level since August 2001, just before the September terrorist attacks. Both the expectations and current-conditions components of the index rose briskly, with current conditions rising by the largest number of points since June 1977. Consumer prices rose by a modest 0.2% in February.

American durable-goods orders rose by 1.5% in February, though they are 4.6% below their level of a year ago. Orders for commercial aircraft, which surged by 47% during the month, and for other transportation goods accounted for the increase. Excluding them, durable-goods orders decreased by 1.3% in the first drop in non-transportation durable-goods orders in five months.

Canada's consumer prices rose by 1.5% in the year to February. Money-supply growth slowed to 14.2% in the year to February; the broad measure of money-supply growth accelerated to 5.5% over the same period.

Germany's Ifo index of western German business confidence showed signs of economic recovery. It rose to 91.8 in March from 88.5 in February. In a particularly optimistic sign, the future-expectations component also rose in March after declines over the past year. Consumer prices rose by 1.8% in the 12 months to March.

The **euro area's** trade surplus rose to $46.6 billion in the 12 months to January, while the current-account deficit narrowed to $6.5 billion in the same period. France's 12-month current-account surplus rose slightly to $25.6 billion in January, while the 12-month trade surplus narrowed to $8.4 billion in Italy and widened to $22.1 billion in the Netherlands. Spain's producer prices rose by 0.2% in February. The volume of Italian retail sales rose by 0.2% in the year to January.

Sweden's trade surplus widened to $13.5 billion in January. Producer prices fell by 0.4% in the year to February.

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Output, demand and jobs

Mar 28th 2002
From The Economist print edition

% change at annual rate

	GDP 1 qtr	GDP 1 year		The Economist poll GDP forecasts 2002	2003	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 5.2	+ 4.1	Q4	+ 3.4	+ 3.7	+ 0.4	Q3	+ 4.8	Q4	6.6	Feb	6.6
Austria	– 0.3	+ 0.9	Q3	+ 1.1	+ 2.4	– 3.3	Dec	– 3.5	Dec	3.7	Feb	3.4
Belgium	– 0.8	+ 0.1	Q4	+ 1.1	+ 2.9	– 7.5	Jan	– 2.0	Dec	10.8	Feb*	10.6
Britain	+ 0.1	+ 1.6	Q4	+ 1.9	+ 2.9	– 5.2	Jan	+ 5.9	Feb	5.1	Jan†	5.2
Canada	+ 2.0	+ 0.9	Q4	+ 1.7	+ 3.7	– 5.5	Dec	+ 5.7	Dec	7.9	Feb	6.9
Denmark	+ 0.7	+ 0.7	Q4	+ 1.4	+ 2.3	– 1.7	Jan	+ 1.4	Dec	5.0	Jan	5.3
France	– 0.6	+ 0.9	Q4	+ 1.4	+ 2.9	– 1.3	Jan	– 2.8	Jan	9.0	Jan	8.9
Germany	– 1.0	– 0.1	Q4	+ 0.7	+ 2.5	– 5.1	Dec	– 1.8	Jan	9.6	Feb**	9.3
Italy	– 0.8	+ 0.7	Q4	+ 1.2	+ 2.8	– 3.4	Jan	+ 0.2	Jan	9.1	Jan	9.8
Japan	– 4.5	– 1.9	Q4	– 1.2	+ 1.1	–11.5	Jan	– 3.8	Jan	5.3	Jan	4.8
Netherlands	nil	+ 0.4	Q4	+ 1.2	+ 2.9	– 3.9	Jan	+ 1.2	Nov	1.9	Feb§	2.3
Spain	+ 0.7	+ 2.3	Q4	+ 1.9	+ 3.2	– 0.1	Jan	na		12.8	Jan	13.4
Sweden	+ 1.4	+ 1.1	Q4	+ 1.4	+ 2.8	– 4.3	Jan	+ 1.7	Jan	4.0	Feb*	4.2
Switzerland	+ 0.1	+ 0.4	Q4	+ 1.0	+ 2.0	+ 1.9	Q3	+ 3.8	Jan	2.6	Feb*	1.9
United States	+ 1.4	+ 0.4	Q4	+ 1.7	+ 3.6	– 4.1	Feb	+ 5.4	Jan	5.5	Feb	4.2
Euro area	– 0.8	+ 0.6	Q4	+ 1.2	+ 2.8	– 4.1	Dec	+ 0.4	Dec	8.4	Jan	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	– 1.8	– 0.9	Q4	na	na	–10.0	Jan	+ 2.9	Dec	9.4	Feb*	9.8
Greece	na	+ 3.7	Q4	na	na	– 4.0	Dec	+ 6.8	Dec	na		na
Iceland	na	+ 3.6	2000	na	na	+ 2.5	2000	na		1.8	Dec	1.3
Ireland	na	+ 3.2	Q3	na	na	+10.9	Jan	+ 9.1	Dec	4.2	Feb	3.6
Luxembourg	na	+ 8.5	2000	na	na	– 9.2	Dec	+10.0	Oct	2.7	Jan	2.7
New Zealand	+ 2.8	+ 2.1	Q3	na	na	+ 2.6	Q3	+ 7.4	Q4	5.4	Q4	5.6
Norway	+ 1.0	+ 1.8	Q4	na	na	+ 2.0	Jan	+ 3.4	Feb	3.3	Q4	3.1
Portugal	– 1.0	+ 1.3	Q3	na	na	+ 0.8	Jan	– 2.4	Jan	4.1	Q4*	3.8

*Not seasonally adjusted. †Nov-Jan; claimant count rate 3.1% in Feb. §Dec-Feb. **EU harmonised rate 8.1% in Feb.

Text refers only to the first 16 countries listed

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Prices and wages

Mar 28th 2002
From The Economist print edition

% change at annual rate

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.1	Q4	+ 5.8	+ 2.5	+ 2.3	– 0.7	Q4	+ 8.4	+ 4.9	Q4	+ 5.4
Austria	+ 1.9	Feb	+ 2.6	+ 1.6	+ 1.7	– 0.6	Feb	+ 2.6	+ 2.5	Feb	+ 2.6
Belgium	+ 2.6	Feb	+ 2.3	+ 1.6	+ 1.6	– 1.6	Jan	+ 5.9	+ 3.1	Q4	+ 1.6
Britain	+ 1.0	Feb	+ 2.7	+ 2.0	+ 2.4	– 0.3	Feb	+ 1.3	+ 2.7	Jan	+ 4.6
Canada	+ 1.5	Feb	+ 2.9	+ 1.2	+ 1.9	– 1.2	Jan	+ 3.2	+ 3.5	Dec	+ 0.8
Denmark	+ 2.5	Feb	+ 2.4	+ 1.8	+ 2.0	nil	Feb	+ 3.4	+ 4.1	Q4	+ 3.8
France	+ 2.0	Feb	+ 1.4	+ 1.2	+ 1.3	– 1.2	Jan	+ 3.6	+ 4.1	Q3	+ 5.3
Germany	+ 1.8	Mar	+ 2.5	+ 1.3	+ 1.4	– 0.5	Feb	+ 3.7	+ 2.3	Jan	+ 2.5
Italy	+ 2.5	Feb	+ 3.0	+ 1.8	+ 1.8	– 1.2	Jan	+ 5.4	+ 2.8	Dec	+ 1.7
Japan	– 1.4	Jan	– 0.3	– 1.0	– 0.5	– 0.1	Feb	+ 0.1	– 3.4	Jan	+ 0.2
Netherlands	+ 3.8	Feb	+ 4.5	+ 2.7	+ 2.3	– 2.6	Jan	+ 6.7	+ 3.8	Jan	+ 4.4
Spain	+ 3.1	Feb	+ 3.8	+ 2.3	+ 2.4	– 0.2	Feb	+ 3.6	+ 3.6	Q3	na
Sweden	+ 2.8	Feb	+ 1.6	+ 2.0	+ 2.0	– 0.4	Feb	+ 2.5	+ 3.2	Dec	+ 2.7
Switzerland	+ 0.7	Feb	+ 0.8	+ 0.6	+ 0.9	– 1.5	Feb	+ 0.8	+ 1.3	2000	+ 0.3
United States	+ 1.1	Feb	+ 3.5	+ 1.3	+ 2.1	– 2.6	Feb	+ 4.0	+ 3.7	Feb	+ 4.1
Euro area	+ 2.4	Feb	+ 2.3	+ 1.6	+ 1.6	– 0.9	Jan	+ 4.8	+ 2.9	Q3	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Feb	+ 2.7	na	na	– 1.4	Feb	+ 3.2	+ 4.3	Q4	+ 5.0
Greece	+ 3.4	Feb	+ 3.5	na	na	+ 2.4	Dec	+ 6.7	na		na
Iceland	+ 8.7	Mar	+ 3.9	na	na	+ 8.7	Mar	+ 6.0	+ 9.8	Feb	+ 8.2
Ireland	+ 4.7	Feb	+ 5.3	na	na	nil	Dec	+ 4.5	+ 8.7	Q3	+ 7.4
Luxembourg	+ 2.3	Feb	+ 2.9	na	na	– 2.0	Jan	+ 5.3	+ 3.4	Aug	+ 7.0
New Zealand	+ 1.7	Q4	+ 4.0	na	na	+ 1.8	Q4	+10.7	+ 2.2	Q4	+ 1.6
Norway	+ 0.8	Feb	+ 3.6	na	na	–11.5	Feb	+ 3.8	+ 4.5	Q4	+ 4.3
Portugal	+ 3.2	Feb	+ 4.8	na	na	– 6.1	Jan	+ 7.3	+ 2.4	Apr	na

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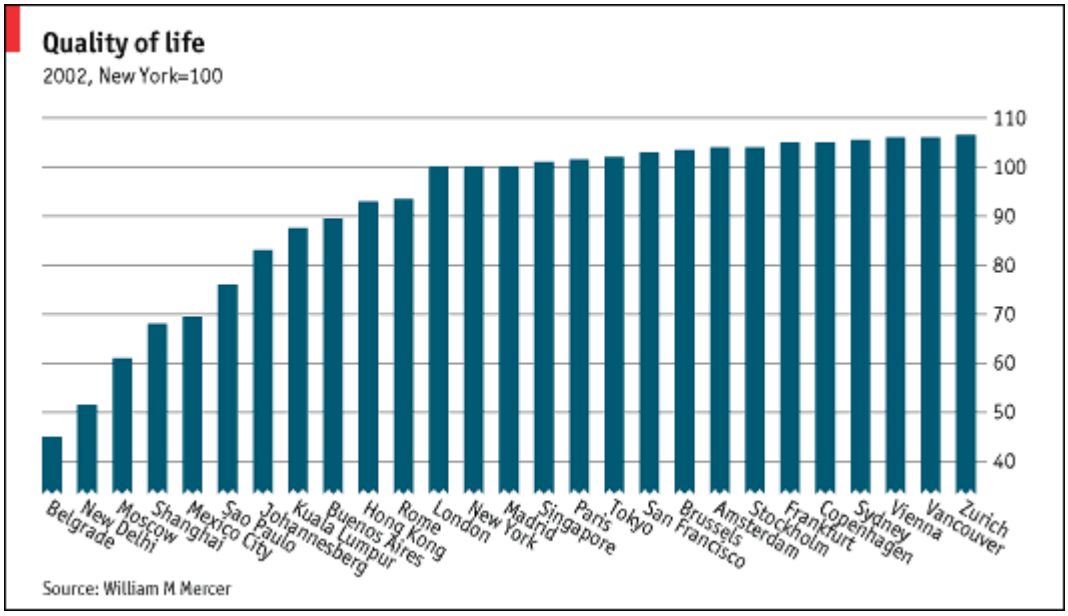
Quality of life

Mar 28th 2002
From The Economist print edition



Zurich is the best city on earth to live in, says a new survey by William M. Mercer, a consulting firm. The survey ranks quality of life according to 39 factors, including political stability, personal freedom, air pollution and the quality of health care, schools, restaurants and theatres. Rich-world cities, not surprisingly, are bunched at the top. London and New York are reckoned to be equals. Belgrade is rated Europe's worst.

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Money and interest rates

Mar 28th 2002
From The Economist print edition

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	Money supply* % change on year ago			Interest rates % p.a. (Mar 26th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.6	+14.7	Jan	4.65	5.20	5.37	6.41	5.31	7.13
Britain	+ 7.1	+ 6.2	Feb	4.16	5.44	4.96	5.30	4.68	6.34
Canada	+14.2	+ 5.5	Feb	2.25	4.59	4.15	5.80	5.42	7.10
Denmark	+ 6.8	+ 8.7	Jan	3.63	5.00	4.63	5.38	4.93	7.06
Japan	+19.4	+ 3.7	Feb	0.05	0.04	0.06	1.44	1.29	1.58
Sweden	+ 7.1	+ 6.2	Nov	4.11	4.03	5.15	5.59	4.65	5.82
Switzerland	+ 7.5	+ 4.6	Feb	1.70	3.47	2.95	3.59	3.19	4.70
United States	+ 7.6	+10.9	Feb	1.91	4.62	3.62	5.34	4.98	7.07
Euro area†	+ 6.6	+ 7.9	Jan	3.45	4.56	4.17	5.16	4.61	5.80

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.75%, Japan No.237 1.43%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 28th 2002
From The Economist print edition

1995=100

	Mar 19th	Mar 25th*	% change on one month	% change on one year
Dollar index				
All items	70.7	69.8	+ 2.9	+ 0.6
Food	70.6	70.1	+ 2.8	+ 2.2
Industrials				
All	70.8	69.4	+ 2.9	– 1.6
Nfa†	70.2	69.8	+ 3.5	+ 6.2
Metals	71.4	69.0	+ 2.3	– 7.4
Sterling index				
All items	78.3	77.2	+ 2.9	+ 1.4
Euro index				
All items	105.3	104.7	+ 1.9	+ 2.4
Yen index				
All items	99.1	99.1	+ 2.1	+ 8.9
Gold				
$ per oz	293.35	297.55	+ 0.6	+13.5
West Texas Intermediate				
$ per barrel	24.96	25.07	+16.3	– 8.9

* Provisional. † Non-food agriculturals.

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Stockmarkets

Mar 28th 2002
From The Economist print edition

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Market indices

	Mar 26th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,335.3	3,440.0	3,331.2	– 2.1	– 3.0	– 0.7	+ 2.3
Austria (ATX)	1,268.2	1,271.2	1,114.4	+ 2.3	–27.0	+11.2	+ 9.5
Belgium (Bel 20)	2,772.8	2,811.1	2,622.4	+ 1.2	–24.7	– 0.3	– 1.9
Britain (FTSE 100)	5,195.5	5,323.8	5,024.1	– 2.3	–25.0	– 0.4	– 2.4
Canada (Toronto Composite)	7,756.7	7,958.1	7,418.1	– 2.3	–31.9	+ 0.9	+ 1.2
Denmark (KBX)	233.0	233.0	216.8	+ 0.7	–22.8	+ 3.6	+ 2.1
France (SBF 250)	3,044.1	3,054.0	2,782.5	– 0.3	–30.7	+ 2.1	+ 0.5
(CAC 40)	4,628.1	4,682.8	4,239.0	– 0.4	–33.1	+ 0.1	– 1.5
Germany (Xetra DAX)	5,390.6	5,462.6	4,745.6	– 1.3	–33.2	+ 4.5	+ 2.9
Italy (BCI)	1,485.8	1,497.3	1,344.9	– 0.7	–31.9	+ 3.7	+ 2.1
Japan (Nikkei 225)	11,207.9	11,919.3	9,420.9	– 5.0	–71.2	+ 6.3	+ 4.9
(Topix)	1,064.2	1,125.4	922.5	– 4.4	–63.1	+ 3.1	+ 1.8
Netherlands (AEX)	523.1	526.8	478.3	– 0.7	–25.4	+ 3.2	+ 1.6
Spain (Madrid SE)	817.4	847.4	773.2	– 3.5	–28.7	– 0.9	– 2.4
Sweden (Affarsvarlden Gen)	222.6	236.8	209.9	– 0.7	–44.4	– 3.8	– 1.8
Switzerland (Swiss Market)	6,624.3	6,630.0	6,105.2	– 0.1	–21.3	+ 3.2	+ 2.6
United States (DJIA)	10,353.4	10,635.3	9,618.2	– 2.7	–11.7	+ 3.3	+ 3.3
(S&P 500)	1,138.3	1,172.5	1,080.2	– 2.7	–25.5	– 0.9	– 0.9
(Nasdaq Comp)	1,824.2	2,059.4	1,716.2	– 3.0	–63.9	– 6.5	– 6.5
Europe (FTSE Eurotop 300)*	1,261.9	1,278.4	1,185.5	– 1.3	–26.0	+ 0.1	– 1.5
Euro area (FTSE Ebloc 100)*	1,108.1	1,125.1	1,013.0	– 1.5	–28.5	– 0.4	– 1.9
World (MSCI)†	996.8	1,024.4	937.0	– 2.7	–31.2	na	– 0.7
World bond market (Salomon)‡	433.2	443.1	430.3	– 0.6	– 5.8	na	– 1.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Mar 28th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† Mar 26th	year ago	Currency units per $ Mar 26th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.1	Jan	− 9.2	Q4	− 3.2	− 3.3	75.7	69.3	1.90	2.02	2.70	1.68	1.44	0.1
Austria	− 4.3	Dec	− 3.6	Jan	− 2.1	− 1.9	100.0	100.3	1.14§	1.12	1.63	–	0.87	nil
Belgium	+ 11.2	Dec	+ 12.4	Sep	+ 4.6	+ 4.5	98.8	98.9	1.14§	1.12	1.63	–	0.87	nil
Britain	− 46.7	Jan	− 25.1	Q4	− 2.0	− 2.1	106.9	106.0	0.70	0.70	–	0.62	0.53	1.1
Canada	+ 39.0	Jan	+ 18.9	Q4	+ 2.1	+ 2.2	76.0	76.5	1.59	1.57	2.27	1.41	1.21	2.8
Denmark	+ 7.1	Jan	+ 4.2	Jan	+ 2.4	+ 2.3	101.7	101.8	8.48	8.39	12.1	7.50	6.45	2.0
France	+ 4.2	Jan	+ 25.6	Jan	+ 1.7	+ 1.7	101.3	101.5	1.14§	1.12	1.63	–	0.87	-1.5
Germany	+ 87.9	Jan	+ 15.4	Jan	+ 0.1	+ 0.2	98.3	98.5	1.14§	1.12	1.63	–	0.87	-2.5
Italy	+ 8.4	Jan	+ 3.2	Dec	+ 0.2	nil	72.3	72.5	1.14§	1.12	1.63	–	0.87	-1.4
Japan	+ 72.2	Jan	+ 91.1	Jan	+ 2.3	+ 2.3	127.8	138.8	133	122	189	117	–	-6.4
Netherlands	+ 22.1	Jan	+ 11.8	Q4	+ 3.7	+ 4.0	97.6	97.8	1.14§	1.12	1.63	–	0.87	1.1
Spain	− 38.5	Dec	− 15.2	Dec	− 2.2	− 1.9	74.1	74.1	1.14§	1.12	1.63	–	0.87	nil
Sweden	+ 13.5	Feb	+ 7.4	Jan	+ 2.4	+ 2.5	77.3	76.1	10.3	10.3	14.7	9.09	7.81	3.8
Switzerland	+ 1.6	Feb	+ 24.6	Q4	+10.1	+10.1	112.7	107.6	1.67	1.72	2.38	1.48	1.27	na
United States	−421.2	Jan	−417.4	Q4	− 4.1	− 4.3	123.3	119.4	–	–	1.43	0.88	0.76	0.6
Euro area	+ 46.6	Jan	− 6.5	Jan	+ 0.2	+ 0.2	78.2	78.5	1.14	1.12	1.63	–	0.87	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Jan	+ 8.2	Jan	na	na	77.7	78.1	1.14§	1.12	1.63	–	0.87	3.7
Greece	− 19.1	Nov**	− 7.3	Nov	na	na	57.4	57.4	1.14§	1.12	1.63	–	0.87	0.2
Iceland	nil	Jan	− 0.7	Q3	na	na	na	na	99.9	90.8	142	88.4	76.0	-0.2
Ireland	+ 31.4	Dec	− 1.2	Q3	na	na	86.9	87.2	1.14§	1.12	1.63	–	0.87	3.2
Luxembourg	− 2.8	Dec	+ 0.4	Q3	na	na	98.8	98.9	1.14§	1.12	1.63	–	0.87	5.3
New Zealand	+ 0.3	Jan	− 0.2	Q3	na	na	85.1	78.6	2.29	2.44	3.27	2.03	1.74	1.3
Norway	+ 24.1	Feb	+ 23.8	Dec	na	na	98.9	94.6	8.79	9.09	12.5	7.77	6.68	14.3
Portugal	− 14.0	Dec	− 10.5	Dec	na	na	89.0	89.3	1.14§	1.12	1.63	–	0.87	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

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Oil price

Mar 28th 2002
From The Economist print edition

Oil prices have rallied by around 20% in March, hitting a six-month high of more than $25 a barrel. Upbeat news from America's economy and fears of a military strike against Iraq have fuelled the rise. OPEC's decision not to raise output has also helped.

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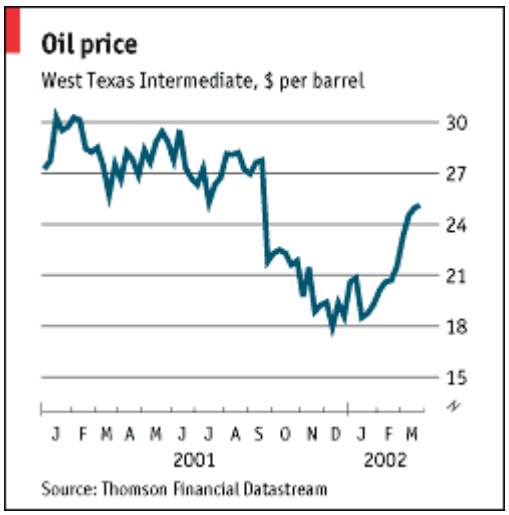

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Overview

Mar 28th 2002
From The Economist print edition

After falling in value by 18% on March 22nd, the **Argentine** peso reached a low of 3.60 to the dollar at the start of the week. The currency has lost two-thirds of its value since January.

The **Polish** economy grew 0.3% in the fourth quarter of 2001 compared with the same quarter in 2000, the slowest for a decade.

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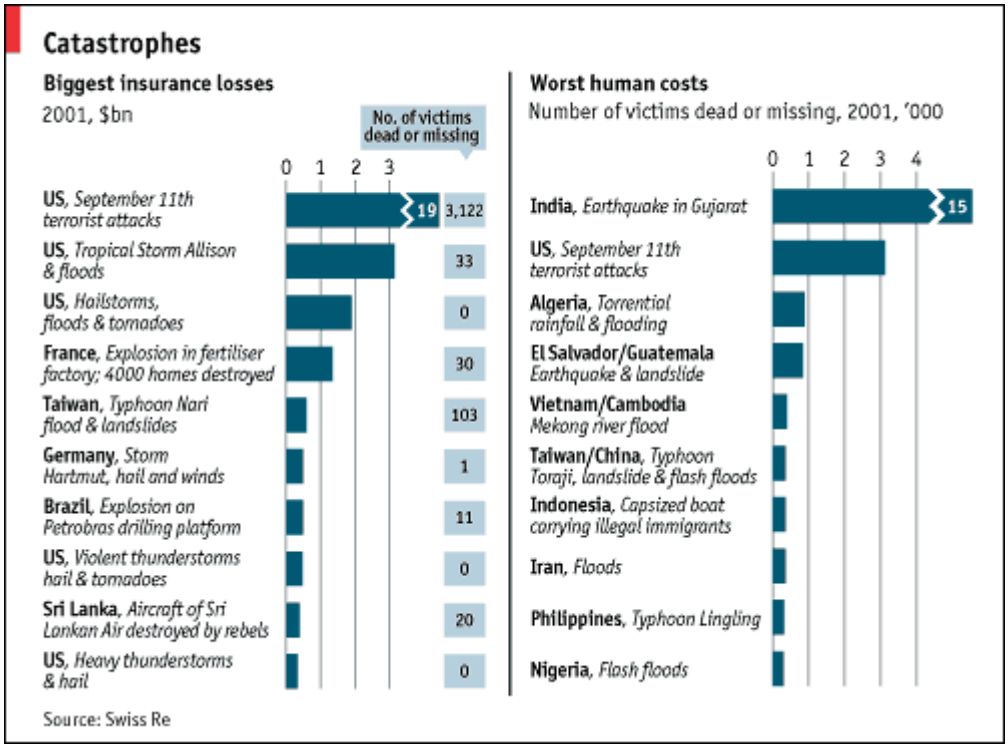
Catastrophes

Mar 28th 2002
From The Economist print edition



The terrorist attacks in America last year caused the largest insurance losses of any man-made disaster, according to Swiss Re. The death toll, however, was outstripped by those from natural disasters. More than 3,000 of the 33,000 people who lost their lives in catastrophes last year died as a result of the attacks on New York and Washington. But even more people lost their lives in an earthquake in Gujarat, India, which killed more than 15,000.

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Economy

Mar 28th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.6	Q4	+ 3.5	Feb	nil	Feb	+26.5	Feb	+20.5	2000	211.8	Nov
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.3	Feb	– 9.9	Feb	+12.0	Q4	111.3	Feb
India	+ 5.3	Q3	+ 3.2	Jan	+ 4.9	Jan	– 5.5	Jan	– 0.7	Q3	47.7	Feb
Indonesia	+ 4.1	Q4	+ 2.0	Q2	+15.1	Feb	+25.4	Jan	+ 4.8	Q3	27.1	Feb
Malaysia	– 0.5	Q4	– 6.7	Jan	+ 1.2	Feb	+14.5	Jan	+ 7.4	Q3	29.7	Jan
Philippines	+ 3.8	Q4	– 0.5	Jan‡	+ 3.4	Feb	+ 2.8	Jan	+ 4.5	Dec	13.9	Feb
Singapore	– 7.0	Q4	–11.3	Feb	– 0.6	Feb	+ 5.6	Feb	+17.9	Q4	72.1	Feb
South Korea	+ 3.7	Q4	+10.2	Jan	+ 2.6	Feb	+ 9.4	Feb	+ 8.2	Jan	105.0	Feb
Taiwan	– 2.7	Q4	–11.5	Feb	+ 1.4	Feb	+17.9	Feb	+19.0	Q4	125.0	Feb
Thailand	+ 2.1	Q4	+ 1.3	Jan	+ 0.3	Feb	+ 2.9	Feb	+ 6.3	Jan	33.1	Jan
Argentina	–10.7	Q4	–16.5	Feb	+ 4.0	Feb	+ 7.2	Jan	– 6.8	Q3	13.7	Jan
Brazil	– 0.7	Q4	– 1.3	Jan	+10.4	Feb	+ 3.5	Feb	–21.3	Feb	36.2	Jan
Chile	+ 1.7	Q4	+ 4.5	Jan	+ 2.5	Feb	+ 1.5	Feb	– 0.9	Q4	14.1	Jan
Colombia	+ 1.0	Q3	– 1.4	Dec	+ 6.7	Feb	+ 0.2	Jan	– 1.2	Q3	10.4	Feb
Mexico	– 1.6	Q4	– 3.3	Jan	+ 4.8	Feb	– 9.7	Feb	–17.1	Q4	47.1	Feb
Peru	+ 3.9	Jan	– 2.1	Dec	– 1.1	Feb	– 0.1	Jan	– 1.1	Q4	8.7	Feb
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+13.7	Feb	+13.0	Q3	+ 4.4	Q4	9.2	Dec
Egypt	+ 4.6	2000†	+ 9.4	2000†	+ 2.5	Dec	– 8.6	Nov	nil	Q3	13.3	Nov
Israel	– 3.4	Q4	– 8.5	Dec	+ 4.0	Feb	– 6.7	Feb	– 1.7	Q4	24.2	Feb
South Africa	+ 1.8	Q4	+ 4.6	Jan	+ 6.1	Feb	+ 3.7	Jan	– 0.2	Q4	6.0	Jan
Turkey	– 7.1	Q3	– 3.1	Jan	+73.1	Feb	– 9.3	Dec	+ 3.3	Dec	20.5	Feb
Czech Republic	+ 3.2	Q4	+ 2.6	Jan	+ 3.9	Feb	– 2.9	Feb	– 2.7	Q4	14.7	Feb
Hungary	+ 3.3	Q4	– 0.6	Jan	+ 6.2	Feb	– 2.2	Jan	– 1.8	Jan	10.3	Jan
Poland	+ 0.3	Q4	+ 0.4	Feb	+ 3.5	Feb	–11.3	Jan	– 6.9	Jan	25.5	Feb
Russia	+ 4.9	Q3	+ 2.0	Feb	+17.9	Feb	+47.8	Jan	+41.5	Q3	32.8	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 7.7	Sep	+ 2.5	Jan	– 1.0	Nov	+ 0.3	2001†	3.6	Jan
Saudi Arabia	+ 4.5	2000	na		nil	Dec	+50.9	2000	+14.3	2000	17.6	Jan

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Mar 28th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 26th		Dec 31st 2001	
	Mar 26th	year ago	Mar 26th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	1,721.4	– 0.9	+ 0.5	+ 0.5
Hong Kong	7.80	7.80	11.1	2.28	10,786.9	– 3.9	– 5.4	– 5.4
India	48.7	46.6	69.5	6.05	3,466.3	– 2.6	+ 6.3	+ 5.1
Indonesia	9,892	10,390	14,104	17.29	481.9	+ 2.2	+ 22.9	+ 33.5
Malaysia	3.80	3.80	5.42	3.28	751.3	– 0.4	+ 7.9	+ 7.9
Philippines	51.1	49.2	72.9	6.88	1,407.1	+ 1.2	+ 20.5	+ 21.5
Singapore	1.83	1.80	2.61	1.00	1,794.1	– 0.8	+ 10.5	+ 10.4
South Korea	1,321	1,301	1,883	4.83	881.0	– 1.0	+ 27.0	+ 26.0
Taiwan	35.0	32.6	50.0	2.55	6,242.6	+ 5.7	+ 12.5	+ 12.5
Thailand	43.4	44.5	61.8	2.25	384.8	+ 2.4	+ 26.6	+ 29.3
Argentina	2.30**	1.00	3.28	na	438.0	+ 7.5	+ 48.3	– 50.2
Brazil	2.34	2.12	3.33	18.54	13,570.0	– 3.9	– 0.1	– 1.6
Chile	658	591	939	4.68*	5,372.4	– 0.8	– 0.5	– 1.2
Colombia	2,282	2,305	3,254	10.62	1,100.9	+ 0.4	+ 2.8	+ 3.7
Mexico	9.07	9.55	12.9	7.48	7,351.2	– 1.0	+ 15.4	+ 17.2
Peru	3.46	3.52	4.93	2.33	1,306.4	– 1.0	+ 11.2	+ 10.9
Venezuela	891	707	1,270	35.40	6,829.8	– 0.5	+ 3.9	– 10.1
Egypt	4.63	3.88	6.61	7.20	5,374.8	– 0.7	+ 1.9	+ 0.7
Israel	4.62	4.21	6.59	2.73	400.5	– 3.3	– 10.4	– 15.3
South Africa	11.7	8.00	16.7	11.50	11,047.2	– 1.2	+ 5.8	+ 10.2
Turkey	1,351,500	1,003,000	1,926,969	49.00	11,639.3	+ 9.4	– 15.6	– 8.6
Czech Republic	35.4	38.7	50.4	4.31	422.9	+ 0.5	+ 7.2	+ 7.3
Hungary	276	300	394	8.40	8,162.1	+ 4.4	+ 14.5	+ 12.9
Poland	4.10	4.10	5.85	10.30	14,960.6	+ 0.5	+ 7.5	+ 3.3
Russia	31.2	28.8	44.5	25.00	334.2†	– 4.4	+ 31.3	+ 28.5
EMF (MSCI)‡	1.00	1.00	1.43	na	348.7	– 0.4	na	+ 9.9
EMBI+§	1.00	1.00	1.43	na	213.1	– 0.5	na	+ 6.4

*New series. †In $ terms. ‡Emerging Mkts Free. §J.P. Morgan Chase's Emerging Mkts Bond Index Plus. **Fixed official rate 1.40.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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